## *SECTION II – SPECIFIC COMPLIANCE*

### SCHOOL DISTRICT BOOKKEEPING

The State Board of Education has, in accordance with law, prescribed a uniform double-entry system of bookkeeping for use in all school districts and is authorized to compel its use. (*N.J.S.A.* 18A:4-14 and *N.J.A.C.* 6A:23-2.1)

Separate accounts must be maintained for the funds and account groups. The following is a listing of those funds and groups, **and the crosswalk to the GASB 34 Model**:

| **Pre-GASB 34 Districts** | **GASB 34 Districts** | |
|---|---|---|
| **Governmental funds** | **Governmental funds** | |
| Fund 10 (General fund) | Fund 10 (General fund) | |
| Fund 20 (Special revenue fund) | Fund 20 (Special revenue fund) | |
| Fund 30 (Capital projects fund) | Fund 30 (Capital projects fund) | |
| Fund 40 (Debt service fund) | Fund 40 (Debt service fund) | |
| N/A | Fund 60 (Permanent fund) | See Note-1 |
| **Proprietary funds** | **Proprietary funds** | |
| Fund 50 | Fund 50 | |
| Enterprise fund | Enterprise fund | |
| Internal service fund | Internal service fund | |
| **Fiduciary funds** | **Fiduciary funds** | |
| Fund 60 (Trust and agency funds) (expendable & non-expendable trusts) | Fund 60 (Private purpose trust and agency funds) | See Note -2 |
| Fund 70 (Student activity funds) | Fund 70 (Student activity funds) | |
| **Account Groups** | | |
| Fund 80 (General fixed assets account group – GFAAG) | Maintained for record keeping purposes; balances incorporated into the accrual statements (A-series) | |
| Fund 90 (General long-term debt account group - GLTDAG) | Maintained for record keeping purposes; balances incorporated into the accrual statements (A-series) | |

Note - 1 Previously non-expendable trust funds which have resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the district.

Note - 2 Previously expendable or non-expendable trusts, which benefit those other than the district. When the district uses the reimbursable or pay as you go method for unemployment, the Unemployment Compensation Trust would be included here. Also, the resources and changes in net assets of a private purpose scholarship fund would be reported here. These funds are not included in the accrual level statements (A - series). Expendable trusts that benefit the district should be included in the special revenue fund.

***SECTION II – SPECIFIC COMPLIANCE***
***FUND 10 –GENERAL FUND***

**Board Secretary and Treasurer Reports**

In accordance with *N.J.S.A*. 18A:17-9, the board secretary shall report to the board at each regular monthly meeting the amount of total appropriations and the cash receipts for each account, and the amount for which warrants have been drawn against each account and the amounts of orders or contractual obligations incurred and chargeable against each account since the date of the last report. At the close of each fiscal year, the board secretary shall present to the board a detailed report of its financial transactions during such year and file a copy with the county superintendent on or before August 1 of each year.

In accordance with *N.J.S.A*. 18A:17-36, the treasurer shall report to the board monthly a detailed account of all receipts, the amounts of all warrants signed by him/her since the date of the last report and the accounts against which the warrants were drawn, and the balance to the credit of each account. At the close of each fiscal year, the treasurer shall present an annual report showing the amounts received and disbursed for school purposes during said year and file a copy with the county superintendent on or before August 1 of each year.

The monthly board secretary and treasurer reports are to be reconciled on a monthly basis.

**Cash Reconciliation**

The cash accounts must be reconciled. Reconciliation of payrolls and bond and interest accounts are to be made in all districts maintaining such accounts and must be permanently recorded and filed for future reference. The auditor must verify the reconciliation of all cash accounts of the school district.

Bank reconciliation statements are not required to be exhibited in the audit report. Workpapers must be available for review upon request.

**Petty Cash Funds**

*N.J.A.C*. 6A:23-2.9 states "Pursuant to the provisions of *N.J.S.A*. 18A:19-13, a district board of education or charter school board of trustees may establish on July 1 of each year, or as needed, a cash fund or funds for the purpose of making immediate payments of comparatively small amounts".

To be in compliance with the administrative code, the board must establish the amounts authorized for each fund, and set the maximum allowable individual expenditure. The board must designate custodians for each fund and must establish the minimum time period for the custodian to report on fund activity. Petty cash accounts must be closed out at year-end and unexpended cash deposited in the bank by June 30th.

**SAS #70 Reports**

Depending upon the nature of the services provided, AICPA Statement on Auditing Standards No. #70 (as amended by SAS #88) reports may be required from software vendors, payroll service vendors, and other service organizations. SAS #88 clarified SAS #70 by stating that SAS #70 is applicable if an entity obtains services from a service organization that are part of the entity's information system. SAS #88 explains what constitutes "part of the entity's information system". If SAS #70 is applicable, the service organization auditor will issue one of the following two types of reports, depending upon circumstances and requirements:

- Type I – Report on policies and procedures placed in operation. This report may be an effective and efficient way for the district auditor to gain an understanding of the internal controls of the service organization.

- Type II – Report on policies and procedures placed in operation and tests of operating effectiveness. This report includes a description of the tests of operating effectiveness and the results of those tests. If the controls are present and operating effectively, the district's auditor may choose to assess control risk below the maximum for financial statement assertions related to the service organization transactions. This is a decision made by the district auditor.

Auditors are advised to review Chapter 4, Field Work Standards for Financial Audits, of the Government Auditing Standards (Yellow Book) available electronically at the web site www.gao.gov/govaud/ybhtml for further guidance on internal controls.

**Third Party Disbursements**

*N.J.S.A*. 52:27D-20.1 *Contracts for third-party disbursement services,* passed in 2000, gave the Local Finance Board, in consultation with the Commissioner of Education, the authority to adopt regulations permitting district boards of education to contract with third-party disbursement service organization in order to make payments and execute financial transactions for those purposes.

The rules on third party disbursements were approved and are effective May 19, 2003 and found in N.J.A.C.5:30-17 et seq. District boards of education are advised to review the rules prior to engaging a third party disbursement service organization. N.J.A.C. 5:30-17 et seq., Electronic Disbursement Controls for Payroll Purposes can be found at http://www.nj.gov/dca/lgs/rules/rulesmenu.shtml .

**Investments**

Several statutes govern permissible investment of school monies by New Jersey school districts. *N.J.S.A.* 18A:17-34 gives the treasurer of the school district the authority to deposit school moneys in any bank or banking institutions of this State designated as a depository of school monies. Under *N.J.S.A.* 17:9-41 et seq., the Governmental Unit Deposit Protection Act (GUDPA), a school district may deposit public funds in a public depository if such funds are secured in accordance with GUDPA. This statute defines a public depository as:

> "a State or federally chartered bank, savings bank or an association located in this state or a state or federally chartered bank, savings bank or an association located in another state with a branch office in this state, the deposits of which are insured by the Federal Deposit Insurance Corporation and which receives or holds public funds on deposit."

*N.J.S.A*. 18A:20-37 provides for the specific types of securities that the board of education can authorize to be purchased and sets forth general investment practice requirements. It also provides for the specific types of securities which may be purchased and registered in a school district's name. While the types of securities and requirements are too extensive to list, the statute includes governmental money markets funds and bonds or other obligations having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investments in the Department of Treasury for investment by school districts. The Division does not publish a listing of approved investments but districts may request approval of a specific security by sending a letter to the following address:

Director
Division of Investments
P.O. Box 290
Trenton, NJ 08625

The Department of Education does not have the authority to determine compliance with GUDPA or review and approve the types of securities a school district can utilize. Districts should consult with their legal counsel and direct any questions on the permissibility of a specific security pursuant to N.J.S.A. 18A:20-37 to the Division of Investments in the Department of Treasury at the above address.

Further information on GUDPA or on banking institutions may be found at the department of Banking and Insurance web site http://www.state.nj.us/dobi/gudpa.htm. A school district which is unsure as to whether the bank/institution is certified as a depository should request from the bank/institution a copy of the "Notification of Eligibility" or may contact the Department of Banking and Insurance.

Districts were required to implement GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," effective for fiscal year end June 30, 1998. This statement establishes fair value accounting and financial reporting standards for certain types of investments held by governmental entities other than external investment pools. This should have a limited impact on school districts. For government entities other than external investment pools, this statement establishes accounting and financial reporting standards for the following investments: participating interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, and equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

The implementation of GASB Statement No. 31 did not supersede the required disclosures included in the CAFR in accordance with GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements". It represents a change to the method at which investments are valued for accounting and financial reporting and provides for additional disclosures regarding the valuing of investments.

Recently issued GASB 40, "Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3" is effective for financial statements beginning after June 15, 2004 and states:

> "…disclosures generally referred to as category 1 and 2 deposits and investments are eliminated. However, this Statement does not change the required disclosure of authorized investments and it maintains, with modification, the level-of-detail disclosure requirements of Statement 3." Statement 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The reduction of existing custodial credit risk disclosures follow from federal banking reforms adopted since the release of Statement 3.

**Revenues and Receipts**

Revenues accruing to the board of education for the period under audit must be verified. Receipts for the year and accounts receivable at the close of the year must be verified as to source and disposition. Revenues must be delineated by type and recorded in the proper fund. Common revenues and the funds in which they are reported are included in The Uniform Minimum Chart of Accounts (Handbook 2R2 for New Jersey Public School Districts, as amended by CEIFA and in the Budget Guidelines. The auditor must comment in detail on any irregularity in the method of handling receipts and revenues as a result of audit tests performed.

**Extraordinary Aid**

Districts that receive notification of their approval to receive 2002-03 extraordinary aid in accordance with CEIFA are directed to recognize the approved amount as Other State Aid (10-3190) either during the 2002-03 or 2003-04 fiscal year and establish a corresponding receivable, as the actual payment is not expected to occur until after June 30, 2003. This amount can be excluded from the June 30, 2003 excess surplus calculation **only** if the district can clearly document that they did not budget this additional aid during the 2002-03 fiscal year for which they filed an application. Generally this exclusion from the excess surplus calculation will require the district to experience unique circumstances surrounding the expenditure of these funds.

The exclusion of extraordinary aid from the audited excess surplus calculation should be documented on the "Extraordinary Aid Adjustment" line. This will also require the submission of a detailed letter explaining the circumstances for the exclusion and if applicable, how it relates to the appearance of the excess surplus warning message on the Audit Summary (audsum) Worksheet transmittal form.

Beginning in 2002-03, extraordinary aid applications were made online, with the department's determination of aid based on the submitted application. Audit procedures, similar to the ASSA, have been expanded and can be found in the State Aid/Grants Compliance Supplement at http://www.state.nj.us/treasury/omb/publications/grant/pdf/educ.pdf .

**District Taxes**

District taxes must be recorded in the fund for which they were voted (Type II) or were certified by the Board of School Estimate (Type I). Additional amounts certified to the county board of taxation after the issuance of tax bills by the municipality will be shown as an adjustment on the district's subsequent year's certificate and report of school taxes. These adjustments are generally the result of Commissioner restorations for budget appeals and/or additional certifications for unanticipated debt service expenditures. These additional certifications should be reported as revenue via the accrual of a tax levy receivable.

*N.J.S.A*. 54:4-75 states "The governing body of each municipality shall pay over to the Treasurer of School Moneys, in the case of school districts in which appropriations for school purposes are made by the inhabitants of the school district, within forty days after the beginning of the school year, twenty percent (20%) of the appropriation for local school purposes, and thereafter, but prior to the last day of the school year, the balance of the moneys raised in the municipality for school purposes in such amounts as may from time to time be requested by the Board of Education, within thirty days after each request."

The auditor should comment on any uncollected taxes as of June 30th (other than the special accruals referred to above), and make a recommendation that the board of education request the remittance of the balance from the municipality.

**Tuition (*N.J.A.C*. 6A:23-3.1)**

Tuition revenue is recorded in the general fund. The procedures for determining tuition rates are detailed in *N.J.A.C*. 6A:23-3.1. Because it is "measurable and available" the entire tuition charged for the school year is revenue of the year even though part of the charge is uncollected at year-end. Tuition or program fees should not be charged for accredited Adult Education programs operating for the purposes outlined in *N.J.S.A*. 18A:50-12, since pupils enrolled in such programs are included on the Application for State School Aid. Fees collected for non-accredited Adult Education programs are miscellaneous general fund revenue, not tuition.

Local school district auditors must compare tentative tuition charges in the current fiscal year to the rate certified by the Department of Education. The auditor must comment on whether appropriate billing adjustments have been made for the differences between tentative and actual charges. The tuition adjustments made in 2002-03 would relate to the certification of 1999-00 rates for regular tuition. Consult *N.J.A.C.* 6A:23-3.1(e). Auditors should also consult NJ DOE Policy Bulletin 100-1 issued in December 1993 (Resource Room Tuition). Local school district auditors must consider *N.J.A.C.* 6A:23-3.3 for auditing tuition rates for county vocational schools; and *N.J.A.C.* 6A:23-3.4 for auditing rates for county special services schools when these types of LEAs are audited.

Local school district auditors must perform procedures to determine that the following requirements are met:

1. The district used the Budget Software tuition worksheet (only applicable to regular districts) or another Department of Education prescribed method for estimated tuition charges (Estimated Cost Per Pupil for Tuition Purposes).
2. Receivables and/or payables are based upon uncollected tuition billed.
3. Regular tuition adjustments based upon Department of Education certification of rates are not recognized as revenue and/or expenditures until the third year after the contract year and that the tuition adjustments are correctly reflected in the amounts reported as tuition revenue (receiving district) or tuition expenditures (sending district).
4. If at the end of the contract year a district board of education anticipates that a large tuition adjustment will be required in the third year following the contract year, the district board of education may restrict fund balance up to 10 percent of the estimated tuition cost in the contract year, in a legal reserve for tuition adjustments. Full appropriation shall be made in the third year and any remaining balance shall be reserved and designated in the subsequent year's budget. (*N.J.A.C.* 6A:23-3.1(f)(8). (See the section in this Audit Program on Excess Surplus.)

Local school district auditors must make appropriate comments and recommendations for any findings related to these procedures.

**Reporting On-Behalf Payments**

GASB Statement No. 24 requires that an employer government recognize revenue and expenditures for on-behalf payments for fringe benefits and salaries. On-behalf payments for fringe benefits and salaries are direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another legally separate entity (the employer entity or employer government). In applying this accounting directive in New Jersey, districts are required to include in their CAFR as both a revenue and expenditure both the pension contributions made directly to the TPAF by the state on their behalf, as well as the reimbursed social security amounts related to its employees that are TPAF members. The sample CAFR reflects the required presentation and the sample pension footnote includes the required disclosures. The department annually provides districts with the information on the amounts paid on their behalf for employer contributions to the TPAF.

Districts should prepare a schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis. That is, the current year amount equals total cash reimbursement received during the current year less the prior year June 30th receivable amount plus the current year June 30th receivable balance. **The on-behalf payments will be included in the CAFR as non-budgetary revenue and expenditure items, similar to the reporting of assets acquired under capital leases.** Districts are not required to include these amounts in their annual school budgets or monthly reports of the board secretary.

**Refunds**

Refunds on current year expenditures are a credit to the applicable expenditure line account. Refunds on prior year expenditures, and sales of books, and manual training materials and products are miscellaneous income, not refunds. Proceeds from the sale of land, buildings and equipment are other financing sources.

**Telecommunications Act of 1996 – Universal Service Fund (E-rate)**

The Schools and Libraries Universal Service Fund, known as the "E-rate" was created as part of the Telecommunications Act of 1996 to provide affordable access to modern telecommunications and information services to all eligible schools and libraries in the U.S. The School and Libraries Corporation (SLC) was established by the FCC to administer the Schools and Libraries Universal Service Fund. All public and private schools and libraries qualify for funding based on their level of economic disadvantage (based on the percentage of students eligible for the national school lunch program) and their location, rural or urban. The offset to the reduction in the expenditure is either to accounts receivable if a refund is due or to accounts payable if unpaid at June 30, 2002. Additional information is available at the Department of Education, Office of Technology website at www.state.nj.us/njded/techno/toc.htm and at the School and Libraries website at www.sl.universalservice.org.

**Cancellations**

Cancelled prior year contractual orders and canceled prior year tuition receivables are reflected in the audit report as revenues and expenditures, respectively. Cancellations of prior year reserve for encumbrances increase the amount available for expenditure in the current year.

**Abbott Parity Remedy Aid**

The 2002-03 Abbott v. Burke Parity Remedy Aid for eligible Abbott districts will be accounted for in the general fund revenues and appropriations of the district. In accordance with the court decision, the State is required to deduct an amount equal to 2 percent of the district's Abbott Parity Remedy Aid to support required expenses. The district is required to budget for this purpose in account #11-190-100-800.

**Health Insurance Policies**

The department issued a hotline concerning audit issues/procedures regarding certain insurance policies held by New Jersey school districts dated August 30, 1995. At that time, we were seeking an opinion from the Office of the Attorney General on questions raised regarding the custody of funds and payment of claims. In response to that request, we were advised that the enactment of Chapter 74, P.L. 1995 authorized school districts to enter into minimum premium insurance policies with insurance companies authorized to do business in the state although those policies may involve different cash management methods than those required by existing statute.

The hotline was issued after review of policy terms and discussions with both public school accountants and insurance company representatives. Based on that review, the following issues were identified:

Districts with minimum premium policies commonly have three accounts with the carrier: 1) a termination reserve account, 2) a claims account, and 3) a premium stabilization account. The termination reserve account generally represents funds earmarked for the district's liability for claims which have been incurred but not reported (IBNR), also known as the "run-off" liability. The IBNR liability amount is calculated annually by the carrier's actuaries and provided to the policyholder. The claims account is used for the payment of claims filed. The contracted monthly premium estimate is deposited into this account. The monthly deposit may or may not include the administrative fee paid to the carrier. In some cases, the fee is a separate remittance. The premium stabilization accounts are used as a mechanism to smooth insurance premium payments. Commonly, any funds remaining in the claims account at the end of the year are transferred to the premium stabilization account for use in future years in the event of "premium" increases. Premium stabilization funds are often attached to participating and fully funded policies in which rebates are based on a retrospective review of claims filed during the policy period. These funds (rebates) are maintained in an account, in the district's name, and are used to smooth future years' premium payments. Payments from these accounts for other than insurance premiums are prohibited and circumvent the budgetary process.

In the past, the aforementioned accounts may have not been reflected in the district accounting records or were inaccurately reported as fund balance. Public school accountants should review the terms of district policies and statements/monthly activity reports issued by the carrier. If the district has a minimum premium policy a confirmation should be issued to the insurance carrier regarding the following:

- The existence of and amount of June 30th balances in accounts in the district's name held on their behalf by the carrier*
- District liability for the IBNR claims at June 30th
- District liability for claims that were filed but unpaid at June 30th
- Composition of the accounts (what are the types of underlying investments made on the district's behalf)*
- Investment income earned during the year on district funds held by the carrier*

Auditors may wish to obtain confirmation from the carrier that the expenditures made from the claims accounts were for valid claims if direct testing is not possible from district records. Items noted with an (*) should be confirmed in situations where it appears that a premium stabilization account exists under a participating or fully funded policy.

The confirmed information as well as the balances in any accounts related to the policies that are held by the district itself should be used to determine the proper presentation in the CAFR. The assets (total of the June 30th account balances) will be compared to the related liabilities (total of the June 30th IBNR claims and claims in process at June 30th). Any excess assets should be included in the amount reported as unreserved general fund surplus. If the liabilities exceed the assets, the district's unreserved general fund surplus must also be considered. The accrual made for the claims should not put the general fund into a deficit position. That is, the total liabilities should be subtracted from the total of the June 30th unreserved general fund surplus plus the total assets. The amount of liabilities in excess of the total of surplus and assets should be shown as a liability in the general long-term debt account group (**GASB 34 Model** – in the district wide Statement of Net Assets) and the June 30th general fund unreserved surplus reported as zero. For minimum premium policies, the current year expenditures reported for insurance premiums/claims should represent the total of the amount of claims and administrative fees paid in the current year related to the current year, the accrual for the unpaid claims in process, and the change in the June 30th balance in the IBNR liability between the current year and the prior year. For any type of policy, it must not include any excess premium payments transferred to a premium stabilization account.

The funds held by the district or the carrier on the district's behalf are included in the general fund balance sheet as cash, cash equivalents, or investments.

The June 30th general fund accounts payable balance should include the amount of claims in process as of that date. It should not include the IBNR liability. The IBNR liability should be reported in the general fund balance sheet or general long-term debt account group as an accrued liability labeled "Accrued Liability for Insurance Claims".

The notes to the financial statements should clearly disclose the terms of the policies and provide explanations of the related balance sheet accounts.

**Sale and Lease-back Contracts**

*N.J.S.A.*18A:20-4.2 authorizes boards of education to enter into sale and lease-back contracts on certain instructional materials (i.e. textbooks). The district can acquire through sale and lease-back textbooks and non-consumable instructional materials provided that the sale price and principal amount of the lease-back do not exceed the fair market value of the textbooks and instructional materials and that the interest rate applied in the lease-back is consistent with prevailing market rates or is less. The lease-back can be for any term not exceeding in the aggregate of five years.

Proceeds from the sale and lease-back of textbooks and non-consumable instructional materials shall not be included in the calculation of excess undesignated general fund balance during the budget year in which they are realized. A board of education may establish a reserve account in the general fund with all or part of the proceeds from the sale and lease-back provided that subsequent appropriations from the reserve account shall only be made within the original budget certified for taxes or as approved by the Commissioner for good cause.

If the board of education establishes a reserve in the year the proceeds are realized, then the calculation of excess surplus will not include the June 30 legally restricted reserve balance in that year and future years. The exclusion of sale and lease-back funds from the audited excess surplus calculation should be documented on the "Sale and Lease-Back" line.

**Required Maintenance**

Pursuant to *N.J.S.A.* 18A:7G-9 and *N.J.A.C.* 6:24-6.1, beginning in ten years following enactment of the act, to receive funding under EFCFA districts will be required to demonstrate a net investment in required maintenance of at least 2% of the replacement cost of the related school facility (determined pursuant to subsection b. of section 7). For new construction, additions, and school facilities aided under the act, beginning in the fourth year after occupancy of the school facility, districts must demonstrate an investment in required maintenance in the prior year of at least two-tenths of 1 percent of the replacement cost of the school facility.

To support the demonstration of this requirement, beginning with data for fiscal year 2000-01, districts must include a schedule of required maintenance expenditures by school facility (as defined under *N.J.A.C.* 6:24-1.3) in the CAFR. For reporting 2001 and 2002 required maintenance expenditures (11-000-261-xxx), a district was permitted to allocate the total to each school facility and other facilities by proration according to its gross square footage. (*N.J.A.C.*6:24-3.1(d)1(i)(1)).

Beginning in 2002-03, districts are required to maintain their accounting records for required maintenance at the school facility level and will be required to "provide the expenditure records, detailed by school facility, at fiscal year end for verification by the district auditor" (*N.J.A.C.* 6:24-2.2(e)). Auditor verification should include a review of classification of expenditures and documents to support the school level expenditures for object code 261 and random testing of purchase orders/vouchers. Auditors should be aware that salaries split between custodial and required maintenance need "task specific documentation".

A sample Schedule of Required Maintenance for School Facilities (Exhibit J-1a) is included on the following page. The schedule should indicate the project number(s), if applicable, as assigned by the department upon project approval and determination of preliminary eligible costs (PEC) in the column preceding the current year expenditure. If a district has a school facility for which it has no project numbers, it should indicate "N/A" in the project number column. Required maintenance expenditures for other facilities are reported in the aggregate by year. All districts should complete this schedule. If the district has no school facilities projects, the district should indicate "N/A" on the schedule.

**Exhibit J-1a**

**ANYTOWN SCHOOL DISTRICT**
**GENERAL FUND**
**SCHEDULE OF REQUIRED MAINTENANCE FOR SCHOOL FACILITIES**
**For the Fiscal Year Ended June 30, 20X3**

**UNDISTRIBUTED EXPENDITURES - REQUIRED MAINTENANCE FOR SCHOOL FACILITIES**
**11-000-261-xxx**

| | | 2003 | 2002 | 2001 |
|---|---|---|---|---|
| *** School Facilities** | **Project # (s)** | | | |
| Building A | NA | $ 45,500 | $ 35,115 | $ 34,092 |
| Building B | 4800-055-R01, SP200303 | 125,000 | 158,129 | 153,523 |
| Building C | NA | 250,000 | 121,519 | 117,980 |
| Building D | 0570-030-R01 | 58,700 | 67,959 | 65,980 |
| Total School Facilities | | $ 479,200 | $ 382,722 | $ 371,575 |

* School facilities as defined under EFCFA.
(N.J.A.C. 6A:26-1.2 and N.J.A.C. 6:24-1.3)

**Restricted Appropriations/Balances**

Under current New Jersey Administrative Code, budgeted appropriations are deemed restricted when associated with a capital outlay spending growth limitation adjustment (SGLA) or an additional spending proposal. The "Spending Growth Limitation Summary" statement from the 2002-03 Annual School District Budget Statement and the cover page of the 2002-03 Annual School District Budget Statement Supporting Documentation will reflect the district's status for capital outlay SGLA's and additional spending proposals, respectively. Additionally, districts with capital outlay spending growth limitation adjustments were provided with a memorandum from the department confirming the actual adjustment amount included in the 2002-03 budget certified for taxes.

Details on restricted appropriations/balances follow:

*N.J.A.C*. 6A:23-8.8(a) Adjustments to Spending Growth Limitations-Capital Outlay

A **capital outlay spending growth limitation adjustment** is supported by a formal board resolution which contains a narrative description of the capital purposes and the full amount to be included in the base budget, the need for and the amount of the adjustment, and a statement that said purposes must be completed by the end of the budget year and cannot be deferred or incrementally completed over a longer period of time. The associated appropriations are included in the base budget submitted to the voters or board of school estimate, and do not require an additional tax levy question.

*N.J.S.A*. 18A:7F-5d includes restrictions on the transfer of funds between capital outlay and current expense accounts for any district receiving a capital outlay spending growth limitation adjustment and also excludes the adjustment from the base amount that will be used to calculate a district's maximum permitted net budget in the subsequent year. *N.J.A.C*. 6A:23-8.8(a) includes restrictions that the total capital outlay portion of the budget is restricted. That is, any unspent or unencumbered funds must be appropriated for tax relief in the next budget certified for taxes. It also requires that funds budgeted within capital outlay for individual projects are restricted to their original purpose unless an exception is granted by the Commissioner due to unforeseeable conditions which result in other urgent capital outlay needs. Transfers are allowed between approved projects.

When a reservation of fund balance is established for unexpended or unencumbered funds pursuant to a capital outlay spending growth limitation adjustment, the annual independent audit shall contain a note to the financial statements indicating the reserved fund balance amount, source and the fiscal year in which it will be appropriated. The financial statements should reflect the following equity account in the general fund: reserved fund balance-legally restricted appropriations.

*N.J.A.C*. 6A:23-8.5 Additional Spending Proposals

**Additional spending proposals** are supported by (1) a formal board resolution, "Separate Proposal Summary," (2) an advertised description of the purpose or purposes and amount, (3) a separate ballot question or questions for the associated tax levy, (4) an itemized accounting for the appropriations, and (5) a merged final budget including the base budget and approved appropriations.

*N.J.A.C*. 6A:23-8.5(g) requires that amounts approved by the local voters or board of school estimate or amounts restored by the municipal governing body or bodies after rejection by the local voters shall be used exclusively for the purpose(s) contained in the associated question(s). Additionally, each question must contain sufficient funds to carry out the specific purpose or purposes contained therein and no funds shall be included in the base budget for implementing such purposes. The district board of education is required to maintain a separate accounting of expenditures for each question and approved amounts that remain unexpended or unencumbered at the end of the school year shall either be anticipated as a part of the designated general fund balance of the subsequent school year budget or reserved and designated in the second subsequent school year budget.

**Restricted Appropriations/Balances (Continued)**

When a reservation of fund balance is established for unexpended or unencumbered funds pursuant to an additional spending proposal, the annual independent audit shall contain a note to the financial statements indicating the reserved fund balance amount, source and the fiscal year in which it will be appropriated. The financial statements should reflect the following equity account in the general fund: *reserved fund balance-legally restricted appropriations*.

Pursuant to *N.J.A.C.* 6A:23-8.5(f), a district board of education may not modify the base budget to execute proposed expenditures that have been rejected by the local voters, or board of school estimate and not restored by the local governing body or bodies, except as specified in *N.J.A.C.* 6A:23-8.5(j), through a donation or contribution from an external source, only if such implementation will not require funding by the district board of education in subsequent budget years.

**Capital Reserve Account - General Fund**

The capital reserve account (*N.J.A.C.* 6A:26-9.1) maintained in the general fund allows a district to accumulate funds for future capital projects. A capital reserve account must have been established by board resolution, a copy of which should have been filed with the county superintendent of schools.

The Educational Facilities Construction and Financing Act (EFCFA), (N.J.S.A. 18A:7G –1 et seq.), was signed into law on July 18, 2000. This law provided for the establishment of a capital reserve account within 90 days of the effective date of EFCFA (by October 15, 2000), and significantly changed the rules regarding capital reserve account deposits and withdrawals.

> "A board of education may, by resolution of the board: transfer undesignated general fund balance or excess undesignated general fund balance to the capital reserve account at any time during the budget year; transfer funds from the capital reserve account to the appropriate line item account for the funding of capital projects as contained in the district's long-range facilities plan; and transfer funds from the capital reserve account to the debt service account for the purpose of offsetting principal and interest payments for bonded projects which are included in the district's long-range facilities plan." (*N.J.S.A.*18A:7G-31c)

The regulations (*N.J.A.C.* 6A:26-9.1 et seq.), provide procedures for capital reserve accounts (withdrawals, deposits, and transfers). The bulleted points below are highlights of that rule. Auditors should refer to the full text of the regulations at the web site http://www.state.nj.us/njded/code/title6a/chap26/. Additional guidance on Economic Development Authority (EDA) grant accounting and use of capital reserve can be found in Section II-30.4 of this Audit Program.

- Funds in a capital reserve account must be used to implement the capital projects in the long-range facilities plan (LRFP). Withdrawals may not be used for current expense.

- Funds in a capital reserve account in existence prior to July 18, 2000 shall be utilized for the original purpose for which the funds were deposited (*N.J.A.C.* 6A:26-9.1(h)).

- The capital reserve account balance cannot exceed the amount needed to implement the capital projects in the LRFP not met by State support (*N.J.A.C.*6A:26-9.1(d); this amount is required to be adjusted annually in the Quality Assurance Annual Report (QAAR) (*N.J.A.C.*6A:26-9.1(d)1(i). "All excess amounts in the capital reserve account identified in the annual audit shall be reserved and designated in the subsequent year's budget." (*N.J.A.C.* 6A:26-9.1(d)1(iii)).

Unexpended funds remaining after completion of a project:

- Capital reserve funds transferred to Capital Projects to augment a grant that are remaining after completion of a school facilities project must be reserved and designated in the subsequent year budget. (*N.J.A.C.* 6A:26-9.1(g)3).

- Any unexpended capital reserve funds transferred to capital outlay remaining after completion of the school facilities project shall be returned to the capital reserve or anticipated as part of the designated general fund balance of the subsequent school year budget or reserved and designated in the second subsequent school year budget. (*N.J.A.C.* 6A:26-9.1(e)3(v)).

Deposits:

- Upon submission of the LRFP, a district, by board resolution, may deposit additional funds into the capital reserve account through transfer of undesignated general fund balance or excess undesignated general fund balance anticipated in the recapitulation of balances in the budget. **Audited excess undesignated, unreserved general fund balance shall not be deposited into a capital reserve account and shall be reserved and designated in the subsequent year's budget pursuant to *N.J.A.C.* 6A:23-8.6.**

- Interest earned on capital reserve funds in the account, including that earned on current year increases, must automatically be placed in the account. Failure to budget the interest does not change the requirement to deposit the interest earned in the account.

- Funds may be appropriated in the annual budget; such appropriation is outside the calculation of a district's budget cap. Deposits are not made for a specific capital project unless specific voter approval was sought and received.

Withdrawals for Local Amount of School Facilities Projects:

- Withdrawals for referendum authorized school facilities projects may be made if the capital reserve use and amount is identified in the approved referendum question.

- Withdrawals for a non-referendum school facilities project may be made, by board resolution, up to 110% of the local share less excess costs. Withdrawals must be transferred to the capital projects fund and accounted for separately with the corresponding EDA grant.

Withdrawals for Excess Costs or Other Capital Projects:

- Upon voter, board of school estimate, or capital project board approval, withdrawals may be made to fund excess costs of school facilities projects or other capital projects (need a separate Statement of Purpose in the advertised budget).

- Withdrawals for referendum approved other capital projects may be made if the capital reserve use and specific amount is identified in the approved question.

**Capital Reserve Account - General Fund (continued)**

Withdrawals for Debt Service:

- A district, by board resolution, may withdraw and transfer funds to the debt service fund to offset principal and interest payments for bonded projects in the LRFP.

Capital Reserve - Accounting and Recording

In addition to N.J.A.C. 6A:26, district staff and auditors should also reference the memorandum and attachments that were distributed to districts and copied to the public school accountants on October 19, 2001. The following are highlights from that document.

- Activity during the year is recorded in the budgetary and asset accounts, not fund balance accounts.
- Adjustments to fund balance are recorded as part of the year-end closing entries.
- The Capital Reserve Asset Account (10-116) is required to segregate the restricted capital reserve assets and is used during the year to record all activity.
- There is no requirement to open a separate bank account for this activity, however, it is practical to do so, given the requirements for recording interest.
- Interest earned on the money as it is spent down is an increase in the capital reserve asset account.

> *Auditor's Note* – The June 30, 2003 Balance Sheet should reflect the actual balance at June 30, 2003 and not increases/withdrawals included in the 2003-04 budget. The department recommends footnote disclosure in the Comprehensive Annual Financial Report.

Pre-GASB 34 Model
The capital reserve account shall be reflected as both an asset (Capital Reserve Account) and a reserved fund balance (Reserved Fund Balance - Capital Reserve Account) on the annual audit's Combined Balance Sheet - All Fund Types and Account Groups (Exhibit A-1) in the general fund column and on the General Fund Comparative Balance Sheet (Exhibit B-1).

**GASB 34 Model**
**The Capital Reserve account is reported in the *Balance Sheet* (Exhibit B-1) of the governmental funds statements as both an asset (Capital Reserve Account) and Reserved Fund Balance - Capital Reserve Account as in the pre-GASB 34 statements. In the district-wide *Statement of Net Assets* (Exhibit A-1) the balance of this account is reported in the net assets section as "Restricted for Other Purposes" in the governmental activities column.**

**Excess Surplus**

Overview

Auditors are required to perform the calculation of excess surplus at June 30th in accordance with *N.J.S.A*. 18A:7F-7 for all regular and county vocational school districts. The audited excess surplus calculation is not applicable to Education Service Commissions (ESCs). Special services school districts are subject to an excess surplus calculation in accordance with *N.J.S.A*. 18A:46-31, as amended. This calculation will be performed by the department during the tuition rate certification process. Do not perform the excess surplus calculation or report excess surplus for a special services school district.

This calculation is required to be documented in the Auditor's Management Report. The calculation will use 3%, 6%, or 2% (Abbott districts only). See the explanations under the 3% Calculation and 6% Calculation headers below.

> *Auditor's Note* - Abbott school districts should refer to The Abbott Addendum for detailed instructions on how to complete the excess surplus calculations. Section 1B of the calculation report includes worksheets specific for Abbott districts.

Excess surplus is a budget related calculation using the general fund expenditures and fund balance of the budgetary comparisons statements/schedules. These amounts are reported on the modified accrual basis with the exception of a state legally mandated revenue recognition policy that is in conflict with GASB 33 for the 2002-03 budget year. For the pre-GASB 34 CAFR, the amounts used in the calculation must be taken from the *Comparative Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual* (Exhibit B-2). The reserved fund balance for excess surplus should be reported in the *Combined Balance Sheet – All Fund Types and Account Groups* (Exhibit A-1), and the *Comparative Balance Sheets* (Exhibit B-1), fund statements balance sheet and at the end of the *Comparative Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual* (Exhibit B-2).

**GASB 34** Model – The amounts used in the calculation must be taken from the *Budgetary Comparison Schedule – General Fund* (Exhibit C-1) for districts reporting on the GASB 34 Model CAFR. The reserve for excess surplus should be reported at the end of this Schedule.

Amounts included in the 2003-04 certified budget (reserved fund balance – excess surplus designated for subsequent year's expenditure) and any additional amounts reserved for appropriation in the 2004-05 original annual budget (reserved fund balance - excess surplus) must be separately reported in the Audsum diskette on the separate lines provided. The Audsum includes a warning edit for the calculation of excess surplus at June 30, 2003. Under, *N.J.S.A*. 18A:7F-7d, the commissioner may withhold State aid in an amount not to exceed the audited excess undesignated general fund balances for failure to comply with the required reservation and designation of the audited excess surplus.

A calculation was performed in the 2003-04 budget software in Supporting Documentation Item 9 using projected 6/30/03 surplus balances and revised 2002-03 budgeted appropriations. The software, via the edits, forced the inclusion of the greater of the audited excess surplus at 6/30/02 or the calculated projected excess surplus at 6/30/03 in the 2003-04 budget as budgeted fund balance. The 6/30/03 audited calculation should be based upon June 30, 2003 total general fund expenditures (see above for applicable schedules/statements), including applicable transfers to other funds, and net of TPAF Pension and Social Security amounts and amounts reported as "Assets acquired under capital leases (non-budgeted)." General fund transfers to other funds not included in the general fund expenditures of the CAFR, but added to the calculation, were Transfer to Special Revenue (augment ECPA), Transfer to Food Service of, Transfer Capital Outlay to Capital Projects (augment EDA grant) and Transfer Capital Reserve to Capital

Projects (augment EDA grant). This calculation is also adjusted for any allowable adjustments such as impact aid, sale and lease-back and extraordinary aid, if applicable. The Impact Aid adjustment only applies to districts receiving Impact Aid.

**Excess Surplus (continued)**

The amount that can be deducted as an adjustment generally is the amount recognized as Impact Aid revenue in the current year.

The surplus used in the calculation is the total general fund surplus net of any reserve for encumbrances, capital, maintenance and tuition reserve amounts, and any legal reserves that have not been appropriated in the 2003-04 budget. Adjustments for legal reserves not appropriated in 2003-04 must be supported by a board resolution establishing the legal reserve. In most cases, this adjustment will not be applicable since most legal reserves require appropriation into the next year's budget. Auditors are required to include the calculation of 6/30/03 audited excess surplus in the Auditor's Management Report. The Department requires footnote disclosure in the CAFR for those districts where excess surplus is reflected on the general fund balance sheet.

3% Calculation

**Under CEIFA, all districts with approved commissioner spending growth limitation adjustments included in their 2003-04 budget must perform the 3% calculation.** In the 2003-04 budget there were eight possible adjustments to a regular school district's spending growth limitation that allowed the district to exceed its prior year net budget growth beyond 3%; five "statutory" and three "commissioner". Districts with approved commissioner spending growth limitation adjustments were approved with the condition that all projected June 30, 2003 general fund free balance in excess of 3% of the proposed 2003-04 general fund budget or $75,000, whichever is greater, was appropriated. Exemptions to the 3% appropriation requirement were allowed for low spending districts (below $7,897 regular education per pupil – refer to calculation on page 198 of the 2003-2004 Budget Guidelines www.state.nj.us/deded/fp/guidelines.doc) that were not presenting a base budget with a tax increase. Districts exempted from the 3% appropriation requirement are subject to the 6% excess surplus calculation described below.

Underestimations of surplus for the affected districts must be reserved and appropriated for property tax relief in the second subsequent original annual budget that is certified for taxes. Auditors are required to ensure that such reserves are established by the district for June 30, 2003 unreserved - undesignated general fund balances in excess of the approved level contained in the 2003-04 proposed budget.

Amounts calculated in excess of 3% that have not been appropriated in the 2003-04 original budget certified for taxes must be reported as general fund "Reserved Fund Balance - Excess Surplus" in the June 30, 2003 CAFR and appropriated in the 2004-05 budget for property tax relief. Such amounts may not be transferred to the capital reserve account. The amount which has been included in the 2003-04 budget should be reported as general fund "Reserved Fund Balance - Excess Surplus, Designated for Subsequent Year's Expenditures". Note disclosures should describe the nature of the excess surplus and the amount budgeted in the 2003-04 original budget certified for taxes and the amount reserved for the subsequent year budget.

Information is being preloaded in the Audsum regarding limitations on unreserved, undesignated fund balances for those districts which applied for a Commissioner spending growth limitation adjustment in their 2003-04 budget and are subject to the 3% calculation as a result thereof and a related warning edit is included.

**In the case of a defeated budget which is the subject of an application for restoration or required review, or in the certification of taxes in a failure to certify or failure to agree**, the use of underestimates of surplus will be directed by the Commissioner, to 3%, if applicable. Auditors must still perform the applicable surplus calculations for these districts. Any adjustments required, as a result of Commissioner restorations made after the submission of the Audsum diskette, will be made by the department.

6% Calculation

**Under CEIFA, almost all districts that do not have an approved commissioner spending growth limitation adjustment included in their 2003-04 budget must perform the 6% calculation.**

Amounts calculated in excess of 6% that have not been appropriated in the 2003-04 original budget certified for taxes must be reported as general fund "Reserved Fund Balance - Excess Surplus" in the June 30, 2003 CAFR and appropriated in the 2004-05 budget for property tax relief. Such amounts may not be transferred to the capital reserve account. The amount which has been included in the 2003-04 budget should be reported as general fund "Reserved Fund Balance - Excess Surplus, Designated for Subsequent Year's Expenditures". Note disclosures should describe the nature of the excess surplus and the amount budgeted in the 2003-04 original budget certified for taxes and the amount reserved for the subsequent year budget.

For districts with expenditures of $100 million or less any unreserved/undesignated general fund surplus amounts in excess of the greater of 6% of general fund expenditures or $75,000 (after allowable adjustments) is excess surplus. For districts with expenditures greater than $100 million any unreserved/undesignated general fund surplus amounts greater than the sum of 3% of general fund expenditures in excess of $100 million plus $6,000,000 and allowable adjustments is excess surplus. Any excess surplus amount must be reserved for appropriation in the 2004-05 original certified budget.

As a reminder, districts with approved commissioner spending growth limitation adjustments in 2003-04 must perform the 3% calculation described above.

**The following discussion and the example on the following page illustrate the proper calculation of the 6% excess surplus:**

***Example:*** The school district had total general fund expenditures (Pre-GASB 34 Exhibit B-2 in CAFR; GASB 34 Exhibit C-1 in CAFR) of $7,500,000. Included in the general fund expenditures were "On-Behalf State Aid Payments" (TPAF Pension & Social Security) of $405,000 and Assets Acquired Under Capital Lease of $182,000. General fund transfers to other funds not included in the general fund expenditures of the CAFR, but added to the calculation, were Transfer to Food Services of $65,000, Transfer Capital Outlay to Capital Projects (augment EDA grant) of $ 10,000 and Transfer Capital Reserve to Capital Projects (augment EDA grant) of $12,000. The district's applicable excess surplus percentage was 6%. The district received $3,000 in federal impact aid revenue. In the June 30, 2003 balance sheet the district had the following (refer to the fund balance classification example on the following page), $44,900 reserved for encumbrances; $9,000 legally restricted from an unexpended 2001-02 additional spending proposal and required to be designated in the 2003-04 budget for property tax relief; $48,000 reserved June 30, 2002 excess surplus and required to be designated in the 2003-04 budget for property tax relief; $200,000 unreserved and designated in the 2003-04 budget; and $450,000 unreserved/undesignated **prior to calculating June 30, 2005 excess surplus**.

| | | |
|---|---|---|
| 2002-03 Total General Fund Expenditures | $ 7,500,000 *(a)* | |
| | | |
| Increased by Applicable Operating transfers (b): | | |
| Transfer to Food Service Fund | 65,000 | |
| Transfer from Capital Outlay to Capital Projects | 10,000 | |
| Transfer from Capital Reserve to Capital Projects | 12,000 | |
| Decreased by: | | |
| On-Behalf State Aid Payments | (405,000) | |
| Assets Acquired Under Capital Leases | (182,000) | |
| | | |
| Adjusted General Fund Expenditures | 7,000,000 | |
| Applicable Excess Surplus Percentage | x .06 | |
| | | |
| Subtotal | 420,000 | |
| Increased by: | | |
| Allowable Adjustment | 3,000 *(c)* | |
| Maximum Unreserved/Undesignated Fund Balance | | $ 423,000 |
| | | |
| Total General Fund fund balance (June 30, 2003) | $ 751,900 | |
| Decreased by: | | |
| Reserved for Encumbrances | (44,900) | |
| Legally Restricted – Designated for Subsequent Year's Expenditures | (9,000) *(d)* | |
| Excess Surplus – Designated for Subsequent Year's Expenditures | (48,000) *(d)* | |
| Unreserved -- Designated for Subsequent Year's Expenditures | (200,000) *(d)* | |
| Total Unreserved/Undesignated Fund Balance | | 450,000 |
| | | |
| Reserved – Excess Surplus (June 30, 2003) | | $ 27,000 *(e)* |

**Recapitulation of Excess Surplus as of June 30, 2003**

| | |
|---|---|
| Reserved Excess Surplus – Designated for Subsequent Year's Expenditures (Audsum line 10025) | 48,000 *(f)* |
| Reserved Excess Surplus (Audsum line 10024) | 27,000 *(g)* |
| | |
| Total Excess Surplus | $ 75,000 |

(a) Total General Fund Expenditures obtained from CAFR Exhibit B-2 for pre-GASB 34 or C-1 for GASB 34.
(b) Include operating transfer expenditures that relate to the general fund but were required to be maintained in another fund. Do not include general fund transfers to Capital Reserve or Debt Service Fund, or Facilities Grant transfer to Special Revenue.
(c) This adjustment line is to be utilized for Impact Aid, Sale and Lease-back and Extraordinary Aid if applicable (refer to page II-10.3 for restrictions on inclusion of extraordinary aid).
(d) The aggregate of $257,000 represents the total amount of General Fund fund balance appropriated in the 2003-04 General Fund budget.
(e) If this amount is negative enter zero (-0-).
(f) Represents surplus generated in 6/30/02 and budgeted in 2003-04
(g) Represents surplus generated in 6/30/03 (will be required to be budgeted in 2004-05).

Fund Balance Classifications

The proper presentation of fund balance is an important reporting issue. The fund balances of the governmental funds should be grouped under two main categories - reserved and unreserved. It is imperative that fund balances be properly categorized. Appropriate footnote disclosure should be made in the CAFR identifying the amount of fund balance appropriated in the 2003-04 original budget certified for taxes and amounts determined to be reserved for property tax relief during the audited excess calculation performed at June 30th.

**GASB 34 Model**
Districts should use the fund balance classifications reported at the end of the Budgetary Comparison Schedules (Exhibit C-1) for purposes of calculating excess surplus. Fund balance in the governmental funds Balance Sheet (Exhibit B-1) reflects the modified accrual basis with no exception for the revenue recognition of the last state aid payment. In the accrual basis Statement of Net Assets (A-1), there are three classifications of net assets: Invested in capital assets, net of related debt, Restricted net assets (with a line item for each fund in which the net assets are restricted), and Unrestricted. Auditors and district staff should refer to GASB 34, paragraphs 30 – 37 for further clarification of these classifications.

> *Auditor's Note* – No appropriation of surplus after June 30, 2003 is to be reflected in the June 30, 2003 balance sheet as designated for subsequent year's expenditures. The department recommends footnote disclosure in the CAFR.

There are limited instances where the definition of reserved is met:

Fund balance - reserved for:

- The **reserve for encumbrances** represents that amount of fund balance related to orders issued in the current year that will be honored in the subsequent year. In general, for other than construction projects, that liquidation must be made within 60 to 90 days of year-end to be a valid reserve at June 30th. This should not include accounts payable, since those orders were charged as expenditures in the current year and should be included in the balance sheet as a liability. Separate lines are provided in the Audsum diskette for the reserve for encumbrances at June 30th for the general fund and capital projects fund.

- The **capital reserve account** maintained in the general fund allows a district to accumulate funds for future capital projects. EFCFA was signed into law on July 18, 2000 and significantly affected the transactions in the capital reserve accounts. See previous section for specific policies and procedures affecting capital reserve accounting. A separate line is provided in the Audsum diskette for this reserve account.

- The **maintenance reserve account** is used to accumulate funds for the required maintenance of a facility in accordance with the EFCFA (*N.J.S.A.*18A:7G-9). EFCFA requires that upon district completion of a school facilities project, the district must submit a plan for the maintenance of that facility. All such plans must include a provision for a maintenance reserve fund. Auditors and district staff should refer to the regulations, *N.J.A.C.*6:24-5.1, for further guidance. A separate line is provided in the Audsum for this reserve account.

- The **reserve for tuition** represents a year end fund balance classification to reserve unrestricted fund balance for a foreseeable future tuition adjustment pursuant to N.J.A.C. 6A:23-3-1(f). This reserve is only applicable for formal sending /receiving relationships between two district boards of education established under subchapter 3 of the business services code pursuant to N.J.S.A. 18A:38-19. It does not pertain to tuition certification or amounts owed to private schools for the handicap. It is also not applicable to county vocational districts. The tuition reserve enables the district to reserve fund balance for an anticipated large tuition adjustment for the current contract year. The major contributing factor for tuition adjustments and use of the reserve is a significant change from estimated to the actual enrollment. The maximum amount that may be restricted at year end is 10 percent of the estimated tuition cost of the contract year. Upon certification of rates in the third year following the contract year, full appropriation of the applicable years' reserve must be liquidated and any remaining balance related to that year must be reserved and budgeted for tax relief. The account should be shown in the reserved fund balance equity section as reserve fund balance – tuition reserve. Separate lines are provided in the Audsum diskette for each applicable year's reserve.

- The **reserved fund balance-legally restricted account,** which is shown in the reserved fund balance equity section, is used to report that portion of the general fund surplus that is legally reserved for specific purposes. In general, funds are legally restricted only when constraints are imposed on the use by external parties (courts) or by laws or regulations of other governments. This would include reserves established for register audit recoveries and restricted appropriations such as unspent funds from:
  1) Approved separate proposals
  2) Capital outlay for a district with a capital outlay spending growth limitation adjustment in 2002-03
  3) Sale/lease-back reserve

  *N.J.A.C.* 6A:23-8.6 *Designation of general fund balances*, and *N.J.A.C.* 6A:23-8.8, *Adjustments of spending growth limitations* outline the procedures for legally restricted reserves.

  *N.J.A.*C. 6A:23-8.5, *Additional spending proposals*, outlines the procedures for approved separate proposals which are unexpended or unencumbered at the end of the year.

  The notes to the financial statements must contain a discussion of all legally restricted balances, including the amount, source and fiscal year in which it will be appropriated. A separate line is provided in the Audsum diskette for legal reserves - general fund. These balances, if determined prior to the adoption of the budget should have been anticipated in the 2003-2004 School District Budget Statement 3" and line 1660, "Amount Budgeted in FY 03-04" in column 6, General Fund (Reserved) Legal Reserves. Amounts not anticipated in the 2003-04 budget must be shown as a legal reserve in the June 30th CAFR and appropriated in the 2004-05 budget.

- The **reserved fund balance – excess surplus – designated for subsequent year's expenditures** represents the audited excess surplus from the prior year budgeted in the subsequent year. Under CEIFA, any June 30, 2002 audited excess surplus that was appropriated in the 2003-04 original budget certified for taxes must be reported as reserved general fund balance in the CAFR. Audsum line 10025 has been provided for reserved fund balance - excess surplus – designated for subsequent year's expenditures.

  The following discussion and example illustrates the proper presentation of excess surplus – designated for subsequent year's expenditures.

  **Example:** The school district had audited excess surplus as of June 30, 2002 of $48,000 and an unexpended 2001-2002 additional spending proposal of $9,000. The district appropriated $257,000*(a)* in the 2001-02 original budget (comprised of the $9,000 unexpended 2001-02 additional spending proposal; $48,000 audited excess surplus from June 30, 2002; and $200,000 of unreserved/designated surplus). As of June 30, 2003 the district had an additional $27,000*(b)* of excess surplus. The $27,000 (as calculated in the excess surplus example) is required to be appropriated in the 2004-05 original budget for property tax relief.

| | June 30, 2003 | | June 30, 2002 |
|---|---|---|---|
| **Fund Balances**: | | | |
| Reserved: | | | |
| For Encumbrances | $ 44,900 | | $ 50,000 |
| Legally Restricted – Unexpended Additional Spending Proposal | | | 9,000 |
| Legally Restricted – Designated for Subsequent Year's Expenditures | 9,000 | *(a)* | |
| Excess Surplus | 27,000 | *(b)* | 48,000 |
| Excess Surplus – Designated for Subsequent Year's Expenditures | 48,000 | *(a)* | |
| Unreserved: | | | |
| Designated for Subsequent Year's Expenditures | 200,000 | *(a)* | 235,000 |
| Undesignated | 423,000 | | 415,000 |
| | $ 751,900 | | $ 757,000 |

- The **reserved fund balance – excess surplus** represents audited excess surplus generated in the current audit year. Any amount calculated as excess surplus generated during the year ended June 30, 2003 that has not been appropriated in the 2003-04 original budget certified for taxes must be reported as reserved general fund balance in the CAFR. Appropriate footnote disclosure should be made in the notes to the financial statements including the amount and an explanation that the amount represents surplus determined to be reserved and designated in the 2004-05 budget during the audited excess calculation performed at June 30th in accordance with *N.J.S.A*. 18A:7F-7. Audsum line 10024 is used to report reserved fund balance - excess surplus. Please note that the Audsum includes a warning edit for the calculation of excess surplus at June 30, 2003. Additionally, information is being preloaded regarding limitations on unreserved, undesignated fund balances for those districts which applied for a Commissioner spending growth limitation adjustment in their 2003-2004 budget and are subject to the 3% calculation as a result thereof. Auditors are required to include the calculation of excess surplus in the Auditor's Management Report.

- The **reserved fund balance – adult education programs** is a required separate restricted account. *N.J.S.A*. 18A:50-6 requires that surplus generated from the excess of receipts from donations, tuition fees, or from any source other than local taxation over the actual cost of the maintenance and operation of the district's adult education program remain in a separate account for the restricted fund balance. The account should be shown in the reserved fund balance equity section as reserved fund balance - adult education programs. A separate line is provided in the Audsum diskette for reserved for adult education programs - general fund.

<u>Fund Balance – Unreserved</u>

All other fund balance is considered **unreserved** and is considered in the excess surplus calculation. Districts may reflect management's intent for use of the unreserved fund balance as separate lines in the equity section of the balance sheet under the heading unreserved fund balance. Each designation should be explained in the notes to the financial statements. All other unreserved fund balance should be presented as unreserved - undesignated. The amount of unreserved fund balance that has been included in the upcoming year's general fund budget as budgeted fund balance should be reported in the unreserved fund balance equity section as **designated for subsequent year's expenditure**. If the budgeted fund balance amount included in the certified budget contains an amount that has been shown in the reserved fund balance section of the balance sheet (refer to the example on the previous page), do not include it as part of the unreserved designated for subsequent year's expenditure amount. **Separate lines are provided in the Audsum diskette for unreserved - undesignated general fund balances and unreserved fund balance that is designated for subsequent year's expenditure. Include on the designated fund balance line only those amounts which were included in the 2003-04 certified budget as budgeted fund balance on line 121 that has not already been included on a reserved fund balance line. Include in the unreserved - undesignated line all other unreserved fund balance.**

***SECTION II – SPECIFIC COMPLIANCE***
***FUND 20 – SPECIAL REVENUE FUND***

**TPAF Reimbursement**

*N.J.S.A*. 18A:66-90 requires that each local board of education reimburse the state for the employer share of pensions, group life insurance, FICA and other benefits of the Teachers' Pension and Annuity Fund (TPAF) for TPAF members carrying out and paid from federally funded programs.

Districts were given specific guidance in a hotline dated June 29, 1993 on accruing a liability for the TPAF Pension and Social Security related to salaries charged to federal grants. The reimbursement must be made by the September 30th following the fiscal year end. Auditors are required to certify the accuracy of the reimbursement via their signature on the reimbursement form submitted by the district with the actual reimbursement. If submission of the reimbursement form is performed prior to the completion of audit procedures, the form may initially be submitted without the required auditor signature and a revised form reflecting the auditor signature may be subsequently submitted.

Auditors should also include in their audit procedures a test of the biweekly reimbursements filed electronically with the department for all TPAF employees.

**Restricted State Aids**

Overview

Under CEIFA four restricted state formula aids, Demonstrably Effective Program Aid (DEPA), Early Childhood Program Aid (ECPA), Distance Learning Network Aid (DLNA), and Instructional Supplement Aid (ISA), were enacted and are accounted for in the special revenue fund. These restricted formula aids may only be expended for allowable expenditures in accordance with the type of aid received. The district wide actual totals of these restricted formula aids are to be included in the Special Revenue Fund – *Combining Schedule of Revenues and Expenditures* (Exhibit C-2) (**GASB 34 Model**, Exhibit E-1) on the budgetary basis. The 2002-03 budget allowed for anticipated carryover for these four restricted formula aids. The following is a description and the reporting requirements for these aids.

Currently under GAAP, there are no fund balances related to grant revenues in excess of expenditures in the special revenue fund since the revenue recognition criteria in the Special Revenue Fund requires that any excess be reported as deferred revenue. This also applies to the four restricted state aids (ECPA, DEPA, DLNA, ISA) being accounted for in the special revenue fund. *However, there will be a deficit fund balance in the GAAP statements for these accounts due to the adjustment of the last state aid payment.*

> ***Auditor's Note*** – Auditors should review The Abbott Addendum for items that specifically relate to Abbott districts.

*Last State Aid Payment - Districts prepared their budgets based on state aid revenue paid over twenty cash payments. During the fiscal year 2002-03, the State determined that the last payment would not be paid until July of the subsequent year. GASB 33 requires that the provider government and recipient government recognize a payable and receivable in the same fiscal period. The State has revised its budget so that it is not recognizing the payable/expenditure. P.L 2003,c.97, approved June 24, 2003, requires that districts include the last state aid payment as revenue for budgetary purposes only. Beginning in 2002-03, there will be a year end difference between the revenue for GAAP reporting and revenue for budgetary comparisons. The district CAFR must include a reconciliation from the budgetary revenue to the GAAP revenue. See chapters II-8 and III-6 for further discussion.*

I. Demonstrably Effective Program Aid

Effective August 4, 2002, the rules to effectuate CEIFA were revised and brought into the Finance and Business Services Code, *N.J.A.C.* 6A:23, Subchapter 5. *N.J.A.C.* 6A:23-5.5 provides rules for demonstrably effective programs (DEP), strategies or services pursuant to *N.J.S.A*. 18A:7F-18. Such programs include but are not limited to alternative schools, community schools, class size reduction programs,; additional programs that are recommended or revised by the Commissioner; and specific supplemental programs shown to be beneficial for districts with high concentrations of students from low-income families including health services, comprehensive guidance counseling, programs to ensure that schools are safe and drug free, summer school and outreach for dropouts. Under *N.J.S.A*. 18A:7F-18b.(3), districts receiving DEPA **are required to maintain separate program and service accounts in the special revenue section of the budget and in the financial records in accordance with *N.J.A.C.* 6A:23-2.2**.

Effective July 1, 2001, districts may no longer transfer ECPA to DEPA. Districts receiving DEPA must maintain the budget to actual status of the appropriations at the location level by program/strategy. DEPA allocations for 2002-03 were not recalculated but were based on 2001-02 school level DEPA allocations which were generated on a revenue basis. Some districts' 2002-03 DEPA allocations by school will not agree with the total DEPA revenue. Those districts have the flexibility to allocate any additional amounts to any existing school that currently generated DEPA or to a new school. If a district opened a new school, the district should have developed a new operational plan for the school receiving the funds. The district should provide auditors with documentation of department approval of the new operational plan if the district has allocated DEPA to a new school. School district auditors should reference the memo issued by the Office of Fiscal Policy and Planning to School Business Administrators on February 6, 2003 on Budgeting for DEPA if the DEPA allocations by school have been revised. Districts that fail to use DEPA as required by *N.J.A.C*. 6A:23-5.5 shall be subject to recession of aid and additional monetary penalties as established by the Commissioner.

Deferred Revenue/Carryover

DEPA must be utilized in the schools that generated the aid and the carryover of deferred DEPA funds must remain at the school that generated the balances. DEPA revenue that was not expended or encumbered by June 30th of the budget year are classified as deferred revenue in the financial accounts and statements of the district and added to the revenue of a subsequent year budget in one of three ways:

1. When identified prior to the preparation of the subsequent year budget and incorporated therein;
2. Appropriated during the subsequent year with the approval of the Commissioner or his designee; or
3. Retained as deferred revenue until the second subsequent year budget.

A 2001-2002 Carryover Funds form was required to be utilized by districts to request use of the 2001-2002 DEPA balances or to adjust prior estimates (a copy of this form with instructions was distributed via memoranda dated October 19, 2001 for non Abbott districts or October 25, 2000 for Abbott districts ). A district that anticipated carryover balances when preparing its 2002-03 budget may have been required to amend its approved plan if the estimated amount anticipated was incorrect. Districts were required to have the use of DEPA carryovers approved by board resolution. There is no requirement to track the carryover funds in separate revenue or expenditure accounts by year. Once approved, these funds become current year revenue and expenditures and the calculation of deferred revenue amounts at June 30, 2003 will not require delineation as to year of origin. A district board of education shall use the carryover at the location that generated the aid and must be used only for approved demonstrably effective programs, strategies or services pursuant to *N.J.A.C.* 6A:23-5.5(a)1.

Transfers/Revisions

A transfer notification form is required for all DEPA revisions to notify the department of the plan amendments and in some cases to document the approval of the transfer. Minor revisions, which are defined as those which do not jeopardize the accomplishment of the objective nor shift more than a cumulative 10 percent of the money allocated for the program/strategy, do not require prior written approval. Substantive revisions which require prior written approval include the elimination of a strategy or reallocation of more than a cumulative 10 percent of the money allocated to the strategy/program. Either the chief school administrator or school business administrator must sign the transfer forms. Copies of the forms are kept on file at the district and with the department and are available for audit.

> *Auditor's Note* – Auditors should review the State Aid/Grants Compliance Supplement for suggested audit procedures http://www.state.nj.us/treasury/omb/publications/grant/pdf/educ.pdf.

> *Auditor's Note* – Auditors should review The Abbott Addendum for items that specifically relate to Abbott districts.

**For non-Abbott districts**, the transfer notification form is submitted to the county superintendent who is responsible for review and, if necessary, approval. Substantive revisions require prior written approval. The transfer form is returned to the district indicating approval of the plan revision in the space provided. Acknowledgment of receipt of minor transfers/revisions is made through the return of the transfer notification form to the district. The county office monitors the district transfer approval submissions for non-Abbott districts.

Expenditure of Funds

Expenditures for this program are reported in the CAFR on the budgetary basis. The *Combining Balance Sheet* will include encumbrances for this aid as deferred revenue.

**GASB 34 Model – the budgetary basis reporting will continue in the *Combining Schedule of Revenues and Expenditures Special Revenue Fund – Budgetary Basis*, Exhibit E-1 and in the Budgetary Comparison Schedule – Special Revenue Fund**. Encumbrances are a reconciling item in the Required Supplementary Information (RSI), Budgetary Comparison Schedule, Note to RSI.

DEPA must be spent at the school that generated the aid. As part of the June 30th CAFR districts are required to prepare DEPA budgetary statements, using the minimum outline for the special revenue fund, for each location for each program/strategy, including a calculation of actual carryover by location. In order to properly reflect the actual carryover as of June 30, 2003, a calculation must be performed for unbudgeted DEPA funds at each school along with June 30, 2003 unexpended/unencumbered funds for that school. Sample exhibits have been included that reflect different scenarios to assist in the preparation of these statements.

The bottom portion of each DEPA budgetary statement includes a summary of location totals. The total DEPA deferred revenue per this statement must agree to the total of the deferred revenue reported on Schedule B, Schedule of Expenditures of State Financial Assistance, under DEPA. Any DEPA carryover must be carried over for expenditure in the location that generated the revenue. These statements are the responsibility of the district.

> *Auditor's Note* – No negative carryover balances (i.e. overexpenditures) are to be reflected in the individual school locations. If overexpenditures occur, they should be reclassified and included as a finding in the

*Auditor's Management Report*. District wide actual results from the school schedules, Exhibits C-3 to C-6 are also to be reflected in the *Combining Schedule of Revenues and Expenditures – Budgetary Basis*, Exhibit C-2 **GASB 34 Model – Exhibits E-2 series and Exhibit E-1**.

Under *N.J.S.A.*18A:7F-18b(3), districts receiving DEPA must maintain separate program and service accounts in the special revenue fund. This requires an expanded coding structure for those districts' chart of accounts to track expenditures by program and location. It was suggested that the districts include a three-digit dimension for the program/project code and a two or three digit dimension, depending on the number of schools, for location. The program code must clearly delineate between the approved demonstrably effective programs. A list of DEP codes utilized in 2002-03 is contained on page 126 of the 2002-03 Budget Guidelines, and descriptions of these programs are included in Appendix C of that document. The appropriations are summarized under three functions, (1) instruction, (2) support, and (3) facilities acquisition and construction services, at the object level following the minimum outline for the special revenue fund. A separate line is used for the Contribution to Charter Schools. (Note that pursuant to CEIFA, 2000-01 was the last year in which ECPA could be used for DEP and educationally meritorious programs.)

Audit procedures to be performed should include verifying that the funds were expended only for approved demonstrably effective programs, strategies or services pursuant to *N.J.A.C.* 6A:23-5.5 and are in compliance with the department approved DEP school-level operational plans. Auditors should verify that the required Carryover Funds form was filed and that the proper revisions were made for June 30, 2002 carryovers by location. Auditors should verify if the 2002-03 DEPA plan was amended to reflect audited carryover balances, on a test basis that the district has completed the transfer notification form for DEPA transfers and where appropriate obtained prior written approval. Minor transfers, that do not jeopardize the accomplishment of an objective or shift more than 10% of the money allocated for the program/strategy, did not require prior written approval. Substantive revisions that included the elimination of a strategy or reallocation of more than 10% required prior written approval. See also the State Aid/Grant Compliance Supplement available for the applicable year on the NJ Treasury (OMB) web site for further audit procedures.

All instances of non-compliance must be included in the Auditor's Management Report, including if the district is not tracking expenditures by program and location.

## *PREPARING THE DEMONSTRABLY EFFECTIVE PROGRAM RESTRICTED AID (DEPA) STATEMENTS*

The *Statement of Demonstrably Effective Program Aid* is prepared from the district records and is the responsibility of the district. These statements are to be included in the *Special Revenue Combining and Individual Fund and Account Group Statements and Schedules*.

**GASB 34 Model – include this schedule in the Special Revenue Fund section of Other Supplementary Information)** (see table of contents for the pre GASB 34 or GASB 34 statements in The Audit Program.

A separate statement must be prepared for each location as well as a district-wide statement. All districts eligible for Demonstrably Effective Program Aid (DEPA) were required to maintain separate program and service accounts at the school-level in the special revenue fund using the uniform grant project budget statement coding structure.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted spending by approved demonstrably effective program (DEP) as well as calculate deferred revenue by location. This statement is to be prepared on the budgetary basis where "actual" equals the 2002-03 expenditures plus encumbrances at June 30, 2003. These encumbrances must be liquidated within 60 to 90 days.

A statement is to be prepared for each location that spent DEPA. This statement must include the actual spending for each program/strategy in place at that school using the uniform grant project budgets statement coding structure. All of the programs/strategies are to be summed up to determine **the total** spending by school.

At the bottom of each school statement is a calculation of the 2002-03 Available & Unbudgeted funds and the Actual Carryover as of June 30, 2003.

Line (1) represents the 2002-03 DEPA allocation for that school. Note: In instances where original aid allocations by school included closed schools or omitted schools, department approval would have been necessary to change the by school allocation and should be on file at the district. This amount can be obtained from the district's SA1NET *and is a budgetary amount which differs from the cash received by the amount of the last state aid payment which would be received in July, 2003.*

Line (2) represents the actual audited DEPA carryover as of June 30, 2002 at that location. Carryover balances may have been anticipated in the 2002-03 original budget. Districts were instructed to utilize a Carryover Funds form to request use of June 30, 2002 balances or to adjust prior estimates. Copies of the approved request should be on file at the district.

Line (3) represents the total 02-03 DEPA funds available for the 02-03 budget (the sum of Lines 1&2).

Line (4) represents the amount the district included in its DEPA budget for the fiscal year 2002-03 including approved carryover amounts and contribution to charter schools.

Line (5) represents the difference between Line (3) and Line (4). If a district did not revise its budgeted original allocation (if different) or revised its budgeted June 30, 2002 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2003. Line (5) is then considered a component of the Actual Carryover – DEPA as of June 30, 2003.

Line (6) represents 2002-03 budgeted DEPA (Line 4) less the "total actual" for the school (unexpended/unencumbered DEPA).

Line (7) is the total of Lines (5) and (6).

Line (8) can be found in the 2003-2004 Supporting Documentation 16c for that location from the 2003-2004 certified budget. If the actual carryover (Line 7) is less than the budgeted amount then the district must file an amended 2003-2004 DEPA operational plan with the department. If the actual carryover is greater than the budgeted carryover then the district has the option of filing an amended DEPA operational plan or can retain the additional carryover amount not originally budgeted as deferred revenue until 2004-05.

A district-wide summary statement is to be prepared once a statement is completed for each location. The "actual" column is the sum of the "total actual" columns from the location statements. The "budgeted" column can be obtained from the district's 2002-03 certified Detailed Appropriations lines 13410 – 13690 adjusted for any revised allocations, approved carryovers and/or transfers. The total "budgeted" expenditures reported on the district-wide summary must equal the sum of the total budgeted DEPA expenditures (Line 4) from the location statements.

The bottom of the district-wide summary is a roll up of the carryover calculations from the location statements. The amount reported as Total 2002-03 DEPA Allocation must agree to the total DEPA entitlement reported on the 2002-03 State Aid printouts (SA1a) dated January 25, 2002.

The amount reported as "Actual Carryover-DEPA" *less the revenue amount of last state payment amount for DEPA* must agree to the total of the deferred revenue reported on Schedule B, *Schedule of State Financial Assistance*, under DEPA. The deferred revenue amounts appearing in the *Combined Balance Sheet* of the General-Purpose Financial Statements **(GASB 34 Model – the *Governmental Funds Balance Sheet*, Exhibit B-1)** will be the total of the deferred revenue per the *Schedule of State Financial Assistance*, Schedule B, plus any encumbrances. *The last state aid adjustment is required because the revenue recognition of last state aid payment in 2002-03 is not in conformity with GAAP based on GASB 33, but districts are legally required to recognize the revenue of the last state aid payment in their 2002-03 budgetary schedules.* This difference will be included in the required reconciliation contained in the footnotes to the General-Purpose Financial Statements.

**GASB 34 Model – differences will be included in the Required Supplementary Information – *Budgetary Comparison Schedule, Note to RSI*, Exhibit C-3.**

Please note that on the following sample statements every possible account is listed. This is an optional format; districts may list only those accounts that are applicable. In addition, the line (#) references on the sample statements should not appear on the actual statement in the CAFR. Additionally, the four individual schools presented include different scenarios to assist in the preparation of these statements.

**Anytown School District**
**Special Revenue Fund**
**Statement of Demonstrably Effective Program Aid**
**Budgetary Basis**
**For the Fiscal Year Ended June 30, 2003**

**District-wide Total**

| | 20X1 | | |
|---|---|---|---|
| | **Budgeted** | **Actual** | **Variance** |
| **EXPENDITURES:** | | | |
| **Instruction:** | | | |
| Salaries of Teachers | $ 1,125,000 | $ 1,118,479 | $ 6,521 |
| Other Salaries for Instruction | 14,040 | 14,040 | - |
| Purchased Professional and Technical Services | 1,800 | 1,800 | - |
| Other Purchased Services (400-500 series) | 67,604 | 60,007 | 7,597 |
| General Supplies | 137,000 | 136,838 | 162 |
| Textbooks | 80,000 | 74,300 | 5,700 |
| Other Objects | 120,016 | 114,917 | 5,099 |
| **Total instruction** | 1,545,460 | 1,520,381 | 25,079 |
| **Support services:** | | | |
| Salaries of Other Professional Staff | 50,000 | 44,445 | 5,555 |
| Other Salaries | 6,000 | 3,500 | 2,500 |
| Personal Services - Employee Benefits | 155,000 | 150,860 | 4,140 |
| Purchased Professional - Educational Services | 13,072 | 13,072 | - |
| Other Purchased Professional Services | 3,900 | - | 3,900 |
| Purchased Technical Services | 3,190 | 3,190 | - |
| Rentals | 15,000 | 1,000 | 14,000 |
| Travel | 18,000 | 1,375 | 16,625 |
| Supplies & Materials | 20,000 | 14,486 | 5,514 |
| **Total support services** | 284,162 | 231,928 | 52,234 |
| **Facilities acquisition and const. serv.:** | | | |
| Instructional Equipment | 236,727 | 232,403 | 4,324 |
| Noninstructional Equipment | 14,651 | 550 | 14,101 |
| **Total facilities acquisition and const. serv.** | 251,378 | 232,953 | 18,425 |
| **Contribution to charter schools** | 70,000 | 70,000 | - |
| **Total expenditures** | $ 2,151,000 | $ 2,055,262 | $ 95,738 |

**SUMMARY OF LOCATION TOTALS**

| | | |
|---|---|---|
| Total 2002-03 DEPA Allocation | $ 2,080,000 | (1) |
| Actual DEPA Carryover (June 30, 2002) | 72,500 | (2) |
| Total DEPA Funds Available for 2002-03 Budget | 2,152,500 | (3) |
| Less: 2002-03 Budgeted DEPA (Including prior year budgeted carryover) | (2,151,000) | (4) |
| Available & Unbudgeted DEPA Funds as of June 30, 2003 | 1,500 | (5) |
| Add:2002-03 Unexpended DEPA | 95,738 | (6) |
| 2002-03 Actual Carryover | $ 97,238 | (7) |
| 2002-03 DEPA Carryover Budgeted in 2003-04 | $ 52,000 | (8) |

**Note to Preparer**
a) Prepare all individual DEPA locations prior to completing this exhibit.
b) The Actual Carryover is less than the last state aid payment. Therefore the deferred revenue is $0 on Schedule B.

**Anytown School District**
**Special Revenue Fund**
**Statement of Demonstrably Effective Program Aid**
**Budgetary Basis**
**For the Fiscal Year Ended June 30, 2003**

| School: School A | Program Code 115 Actual | 117 Actual | 107 Actual | 2XX Actual | Total Actual |
|---|---|---|---|---|---|
| **EXPENDITURES:** | | | | | |
| **Instruction:** | | | | | |
| Salaries of Teachers | $ 89,206 | $ 1,455 | $ - | $ - | $ 90,661 |
| Other Salaries for Instruction | - | - | - | - | - |
| Purchased Professional and Technical Services | - | 1,800 | - | - | 1,800 |
| Other Purchased Services (400-500 series) | - | - | 13,040 | 654 | 13,694 |
| General Supplies | 7,934 | - | - | - | 7,934 |
| Textbooks | 5,800 | - | - | - | 5,800 |
| Other Objects | - | - | - | - | - |
| **Total instruction** | 102,940 | 3,255 | 13,040 | 654 | 119,889 |
| **Support Services:** | | | | | |
| Salaries of Other Professional Staff | - | - | - | - | - |
| Other Salaries | - | - | - | - | - |
| Personal Services - Employee Benefits | - | - | - | - | - |
| Purchased Professional - Educational Services | - | - | - | - | - |
| Other Purchased Professional Services | - | - | - | - | - |
| Purchased Technical Services | 2,840 | 350 | - | - | 3,190 |
| Rentals | - | 1,000 | - | - | 1,000 |
| Travel | - | 1,375 | - | - | 1,375 |
| Supplies & Materials | 11,526 | 750 | - | - | 12,276 |
| **Total support services** | 14,366 | 3,475 | - | - | 17,841 |
| **Facilities acquisition and const. serv.:** | | | | | |
| Instructional Equipment | 14,000 | - | - | - | 14,000 |
| Noninstructional Equipment | - | - | - | - | - |
| **Total facilities acquisition and const. serv.** | 14,000 | - | - | - | 14,000 |
| **Contribution to charter schools** | - | - | - | - | - |
| **Total expenditures** | $ 131,306 | $ 6,730 | $ 13,040 | $ 654 | $ 151,730 |

**CALCULATION OF BUDGET & CARRYOVER**

| | | |
|---|---|---|
| 2002-03 DEPA Allocation | $ 175,000 | (1) |
| Actual DEPA Carryover (June 30, 2002) | 21,000 | (2) |
| Total DEPA Funds Available for 2002-03 Budget | 196,000 | (3) |
| Less: 2002-03 Budgeted DEPA (Including prior year budgeted carryover) | (195,000) | (4) |
| Available & Unbudgeted DEPA Funds as of June 30, 2003 | 1,000 | (5) |
| Add:2002-03 Unexpended DEPA | 43,270 | (6) |
| 2002-03 Actual Carryover - DEPA | $ 44,270 | (7) |
| 2002-03 DEPA Carryover Budgeted in 2003-04 | $ 40,000 | (8) |

**Note to Preparer**

a) Budgeted 2002-03 funds do not equal DEPA funds available - resulting in Unbudgeted DEPA funds of $1,000 as of June 30, 2003.
b) Total unexpended/unencumbered as of June 30, 2003 is $43,270 ($195,000 minus $151,730).
c) Deferred revenue as of June 30, 2003 is the unbudgeted of $1,000 plus the unexpended/unencumbered of $43,270 for a total of $44,270.
d) Since the 2002-03 actual carryover is greater than the amount Budgeted in 2003-04, the district should consider revising its 2003-04 DEPA Budget.

**Anytown School District**
**Special Revenue Fund**
**Statement of Demonstrably Effective Program Aid**
**Budgetary Basis**
**For the Fiscal Year Ended June 30, 2003**

| School: School B | Program Code 108 Actual | 121 Actual | 114 Actual | 107 Actual | Total Actual |
|---|---|---|---|---|---|
| **EXPENDITURES:** | | | | | |
| **Instruction:** | | | | | |
| Salaries of Teachers | $ 287,000 | $ 76,000 | $ 161,385 | $ - | $ 524,385 |
| Other Salaries for Instruction | - | 14,040 | - | - | 14,040 |
| Purchased Professional and Technical Services | - | - | - | - | - |
| Other Purchased Services (400-500 series) | - | - | - | 18,435 | 18,435 |
| General Supplies | 22,860 | - | 30,573 | - | 53,433 |
| Textbooks | 32,535 | - | - | - | 32,535 |
| Other Objects | - | - | - | - | - |
| **Total instruction** | 342,395 | 90,040 | 191,958 | 18,435 | 642,828 |
| **Support Services:** | | | | | |
| Salaries of Other Professional Staff | - | - | - | - | - |
| Other Salaries | - | - | 3,500 | - | 3,500 |
| Personal Services - Employee Benefits | 53,500 | 9,000 | - | - | 62,500 |
| Purchased Professional - Educational Services | - | - | - | - | - |
| Other Purchased Professional Services | - | - | - | - | - |
| Purchased Technical Services | - | - | - | - | - |
| Rentals | - | - | - | - | - |
| Travel | - | - | - | - | - |
| Supplies & Materials | - | - | - | - | - |
| **Total support services** | 53,500 | 9,000 | 3,500 | - | 66,000 |
| **Facilities acquisition and const. serv.:** | | | | | |
| Instructional Equipment | 9,784 | - | 25,015 | - | 34,799 |
| Noninstructional Equipment | - | - | - | - | - |
| **Total facilities acquisition and const. serv.** | 9,784 | - | 25,015 | - | 34,799 |
| **Contribution to charter schools** | 20,000 | | 50,000 | | 70,000 |
| **Total expenditures** | $ 425,679 | $ 99,040 | $ 270,473 | $ 18,435 | $ 813,627 |

**CALCULATION OF BUDGET & CARRYOVER**

| | |
|---|---|
| 2002-03 DEPA Allocation | $ 800,000 |
| Actual DEPA Carryover (June 30, 2002) | 18,500 |
| Total DEPA Funds Available for 2002-03 Budget | 818,500 |
| Less: 2002-03 Budgeted DEPA (Including prior year budgeted carryover) | (818,000) |
| Available & Unbudgeted DEPA Funds as of June 30, 2003 | 500 |
| Add:2002-03 Unexpended DEPA | 4,373 |
| 2002-03 Actual Carryover - DEPA | $ 4,873 |
| 2002-03 DEPA Carryover Budgeted in 2003-04 | $ 6,000 |

**Note to Preparer**

a) Budgeted 2002-03 funds do not equal DEPA funds available - resulting in Unbudgeted DEPA funds of $500 as of June 30, 2003.
b) Total unexpended/unencumbered as of June 30, 2003 is $4,373 ($818,000 - $813,627).
c) Total Actual Carryover as of June 30, 2003 is the unexpended balance of $4,373 plus the unbudgeted balance of $500 for a total of $4,873.
d) Since the 2002-03 Actual Carryover is less than the the amount Budgeted in 2002-03, the district must revise its 2003-04 DEPA Budget.

**Anytown School District**
**Special Revenue Fund**
**Statement of Demonstrably Effective Program Aid**
**Budgetary Basis**
**For the Fiscal Year Ended June 30, 2003**

| School: School C | Program Code 112 Actual | 103 Actual | 102 Actual | 108 Actual | Total Actual |
|---|---|---|---|---|---|
| **EXPENDITURES:** | | | | | |
| **Instruction:** | | | | | |
| Salaries of Teachers | $ - | $ - | $ 65,000 | $ 204,250 | $ 269,250 |
| Other Salaries for Instruction | - | - | - | - | - |
| Purchased Professional and Technical Services | - | - | - | - | - |
| Other Purchased Services (400-500 series) | - | - | - | - | - |
| General Supplies | - | - | 6,565 | 68,906 | 75,471 |
| Textbooks | - | - | - | 35,965 | 35,965 |
| Other Objects | - | - | - | - | - |
| **Total instruction** | - | - | 71,565 | 309,121 | 380,686 |
| **Support Services:** | | | | | |
| Salaries of Other Professional Staff | 21,840 | 2,720 | 19,885 | - | 44,445 |
| Other Salaries | - | - | - | - | - |
| Personal Services - Employee Benefits | - | - | - | 37,204 | 37,204 |
| Purchased Professional - Educational Services | 13,072 | - | - | - | 13,072 |
| Other Purchased Professional Services | - | - | - | - | - |
| Purchased Technical Services | - | - | - | - | - |
| Rentals | - | - | - | - | - |
| Travel | - | - | - | - | - |
| Supplies & Materials | 2,210 | - | - | - | 2,210 |
| **Total support services** | 37,122 | 2,720 | 19,885 | 37,204 | 96,931 |
| **Facilities acquisition and const. serv.:** | | | | | |
| Instructional Equipment | - | - | - | 135,272 | 135,272 |
| Noninstructional Equipment | - | - | - | 550 | 550 |
| **Total facilities acquisition and const. serv.** | - | - | - | 135,822 | 135,822 |
| **Contribution to charter schools** | - | - | - | - | - |
| **Total expenditures** | $ 37,122 | $ 2,720 | $ 91,450 | $ 482,147 | $ 613,439 |

**CALCULATION OF BUDGET & CARRYOVER**

| | | |
|---|---|---|
| 2002-03 DEPA Allocation | $ 627,000 | (1) |
| Actual DEPA Carryover (June 30, 2002) | 18,000 | (2) |
| Total DEPA Funds Available for 2002-03 Budget | 645,000 | (3) |
| Less: 2002-03 Budgeted DEPA (Including prior year budgeted carryover) | (645,000) | (4) |
| Available & Unbudgeted DEPA Funds as of June 30, 2003 | - | (5) |
| Add: 2002-03 Unexpended DEPA | 31,561 | (6) |
| 2002-03 Actual Carryover - DEPA | $ 31,561 | (7) |
| 2002-03 DEPA Carryover Budgeted in 2003-04 | $ - | (8) |

**Note to Preparer**

a) Budgeted 2002-03 funds equal DEPA funds available - there are no Unbudgeted DEPA funds as of June 30, 2003.
b) Total unexpended/unencumbered as of June 30, 2003 is $31,561 ($645,000 - $613,439).
d) Total Actual Carryover - DEPA is the unexpended/unencumbered of $31,561.
d) Since the 2002-03 Actual Carryover is greater than the amount Budgeted in 2003-04, the District should consider revising its 2003-04 DEPA Budget.

**Anytown School District**
**Special Revenue Fund**
**Statement of Demonstrably Effective Program Aid**
**Budgetary Basis**
**For the Fiscal Year Ended June 30, 2003**

| School: School D | Program Code 102 Actual | 107 Actual | 108 Actual | 114 Actual | Total Actual |
|---|---|---|---|---|---|
| **EXPENDITURES:** | | | | | |
| **Instruction:** | | | | | |
| Salaries of Teachers | $ 2,500 | $ - | $ 5,668 | $ 226,015 | $ 234,183 |
| Other Salaries for Instruction | - | - | - | - | - |
| Purchased Professional and Technical Services | - | - | - | - | - |
| Other Purchased Services (400-500 series) | - | 27,878 | - | - | 27,878 |
| General Supplies | - | - | - | - | - |
| Textbooks | - | - | - | - | - |
| Other Objects | 2,303 | - | 92,614 | 20,000 | 114,917 |
| **Total instruction** | 4,803 | 27,878 | 98,282 | 246,015 | 376,978 |
| **Support Services:** | | | | | |
| Salaries of Other Professional Staff | - | - | - | - | - |
| Other Salaries | - | - | - | - | - |
| Personal Services - Employee Benefits | - | - | - | 51,156 | 51,156 |
| Purchased Professional - Educational Services | - | - | - | - | - |
| Other Purchased Professional Services | - | - | - | - | - |
| Purchased Technical Services | - | - | - | - | - |
| Rentals | - | - | - | - | - |
| Travel | - | - | - | - | - |
| Supplies & Materials | - | - | - | - | - |
| **Total support services** | - | - | - | 51,156 | 51,156 |
| **Facilities acquisition and const. serv.:** | | | | | |
| Instructional Equipment | - | - | - | 48,332 | 48,332 |
| Noninstructional Equipment | - | - | - | - | - |
| **Total facilities acquisition and const. serv.** | - | - | - | 48,332 | 48,332 |
| **Contribution to charter schools** | - | | | | - |
| **Total expenditures** | $ 4,803 | $ 27,878 | $ 98,282 | $ 345,503 | $ 476,466 |

**CALCULATION OF BUDGET & CARRYOVER**

| | | |
|---|---|---|
| 2002-03 DEPA Allocation | $ 478,000 | (1) |
| Actual DEPA Carryover (June 30, 2002) | 15,000 | (2) |
| Total DEPA Funds Available for 2002-03 Budget | 493,000 | (3) |
| Less: 2002-03 Budgeted DEPA (Including prior year budgeted carryover) | (493,000) | (4) |
| Available & Unbudgeted DEPA Funds as of June 30, 2003 | - | (5) |
| Add: 2002-03 Unexpended DEPA | 16,534 | (6) |
| 2002-03 Actual Carryover - DEPA | $ 16,534 | (7) |
| 2002-03 DEPA Carryover Budgeted in 2003-04 | $ 6,000 | (8) |

**Notes to Preparer**

a) Budgeted 2002-03 funds equal DEPA funds available.
b) There are no Unbudgeted DEPA funds as of June 30, 2003.
c) Total unexpended/unencumbered as of June 30, 2003 is $16,534 deferred revenue ($493,000 - $476,466).
d) Since the 2002-03 Actual Carryover is greater than the amount Budgeted in 2003-04, the District should consider revising its 2003-04 DEPA budget.

II. Early Childhood Program Aid

Pursuant to *N.J.S.A*. 18A:7F-16, districts with high concentrations of low income students shall establish preschool and full day kindergarten for all four and five year-olds by the 2001-02 school year and shall maintain them thereafter. (Note: This deadline was accelerated for Abbott districts under the May 21, 1998 Abbott v. Burke decision.) County vocational schools and limited purpose regional school districts eligible for ECPA receive their aid as DEPA rather than ECPA. Districts which have fully implemented preschool and full-day kindergarten are required to continue the full operation of such programs for as long as they receive ECPA. Beginning in the year 2001-02 school year, districts can only use ECPA (new or deferred revenue) for preschool, full-day kindergarten and other early childhood programs and services.

ECPA revenue that was not expended or encumbered by June 30th of the budget year shall be classified as deferred revenue in the financial accounts and statements of the district and added to the revenue of a subsequent year budget in one of the three ways previously outlined in the beginning of the section. Also, the aforementioned *Deferred Revenue/Carryover* and *Transfers/Revisions* restrictions described under DEPA apply to ECPA.

As part of the June 30th CAFR districts are required to prepare a budgetary basis statement for ECPA expenditures using the minimum outline required for the special revenue fund, including a calculation of the unbudgeted ECPA funds along with June 30, 2003 unexpended/unencumbered funds. It should be noted that although the district was required to submit a detailed budget by program, there is no requirement to track ECPA expenditures by program. Accordingly, the ECPA statement of expenditures included in the CAFR is prepared at the summary level, not by program. This statement is the responsibility of the district.

Auditors should verify that the funds were expended only for approved ECPA programs pursuant to *N.J.S.A*. 18A:7F-16 and are in compliance with the department approved ECPA Program Description and operational plan. Auditors should verify that the required Carryover Funds form was filed and that the proper revisions were made for June 30, 2002 carryover. Auditors should verify that the 2002-03 ECPA plan was amended to reflect audited carryover balances, test that the district has completed the transfer notification form for transfers and where appropriate obtained prior written approval. See the State Aid/Grant Compliance Supplement for the applicable year available on the NJ Treasury (OMB) web site for further audit procedures.

Capital Reserve Account Procedures (ECPA)

The use of ECPA capital reserves beyond 2000-01 is permissible only in the limited situation of a DOE approved lease purchase. If a district entered a lease purchase agreement of five years or less for the construction of early childhood facilities, the use of ECPA capital reserves beyond 2000-01 is permissible if it was part of the DOE approved plan.

In the limited situation of a DOE approved lease purchase, the capital reserve account at June 30, 2003 shall be reflected as both an asset (Capital Reserve Account) and a reserved fund balance (Reserved Fund Balance - Capital Reserve Account) in the CAFR's *Combined Balance Sheet - All Fund Types and Account Groups* Exhibit A-1 in the special revenue fund. It should also be reported, on the *Special Revenue Fund - Comparative Balance Sheet,* Exhibit C-1, and reflected as a fund balance on the *Special Revenue Fund – Combining Schedule of Revenues and Expenditures*, Exhibit C-2. The notes to the financial statements must contain a discussion of all legally restricted balances, including the amount, source and fiscal year in which it will be appropriated.

**GASB 34 Model** – the capital reserve account balance at June 30, 2003 should be presented under "Restricted assets: Capital reserve account – cash" and under Net Assets as "Restricted for: Capital Projects" on the *Statement of Net Assets*, Exhibit A-1 in the Governmental Activities column). It should also be presented in the *Special Revenue Fund – Combining Schedule of Revenues and Expenditures*, Exhibit C-2.

### *PREPARING THE EARLY CHILDHOOD PROGRAM RESTRICTED AID (ECPA) STATEMENT*

The *Statement of Early Childhood Program Aid* is prepared from the district records and is the responsibility of the district. This statement is to be included in the *Special Revenue Combining and Individual Fund and Account Group Statements and Schedules* **(GASB 34 Model – include this schedule in the Special Revenue Fund section of Other Supplementary Information)** (see table of contents for the pre GASB 34 or GASB 34 statements in The Audit Program). All districts eligible for ECPA were required to track ECPA expenditures in the special revenue fund using the uniform grant project budget statement coding structure.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted expenditures as well as calculate deferred revenue. This statement is to be prepared on the budgetary basis where "actual" equals the 2002-03 expenditures plus encumbrances at June 30, 2003. These encumbrances must be liquidated within 60 to 90 days. The "budgeted" amounts can be obtained from the district's 2002-03 certified Detailed Appropriations lines 13010 – 13300 adjusted for any approved carryovers and/or transfers.

At the bottom of the statement is a calculation of the 2002-03 Available & Unbudgeted funds and the Actual Carryover as of June 30, 2003.

Line (1) represents the total 2002-03 ECPA allocation. This amount can be obtained from the district's SA1NET *and is a budgetary amount which differs from the cash received by the amount of the last state aid payment which would be received in July, 2003.*

Line (2) represents the actual audited ECPA carryover as of June 30, 2002. Carryover balances may have been anticipated in the 2002-03 original budget. Districts were instructed to utilize a Carryover Funds form to request use of June 30, 2002 balances or to adjust prior estimates. Copies of the approved request should be on file at the district.

Line (3) represents the budgeted transfer from the general fund to fund ECPA programs. This amount can be obtained from Line 511 (Account 20-5200) in the 2002-03 certified advertised revenues.

Line (4) represents the total 02-03 ECPA funds available for the 02-03 budget (the sum of Lines 1-3).

Line (5) represents the amount the district included in its ECPA budget for the fiscal year 2002-03, including contribution to charter schools.

Line (6) represents the difference between Line (4) and Line (5). If a district did not revise its budgeted original allocation (if different) or revise its budgeted June 30, 2002 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2003. Line (6) is then considered a component of the Actual Carryover – ECPA as of June 30, 2003.

Line (7) represents 2002-03 budgeted ECPA (Line 5) less the "total actual" for the program. This amount represents the 2002-03 unexpended/unencumbered ECPA.

Line (8) is the total Actual Carryover – ECPA as of June 30, 2003 and is the sum of Lines (6) and (7).

Line (9) can be found in the 2003-04 Supporting Documentation 15b from the 2003-04 certified budget. If the actual carryover (Line 8) is less than the budgeted amount then the district must file an amended 2003-04 ECPA Program Description with the department. If the actual carryover is greater than the budgeted carryover then the district has the option of filing an amended ECPA Program Description or can retain the additional carryover amount not originally budgeted as deferred revenue until 2004-05.

The Actual ECPA Carryover is the difference between the budgeted amount and the actual amount. This carryover less the revenue amount of last state payment amount for ECPA must agree to the total of the deferred revenue reported on Schedule B, *Schedule of State Financial Assistance*, under ECPA. The deferred revenue amounts appearing in the *Combined Balance Sheet* of the General-Purpose Financial Statements **GASB 34 Model – the *Governmental Funds Balance She*et, Exhibit B-1.** will be the total of the deferred revenue per the *Schedule of State Financial Assistance*, Schedule B, plus any encumbrances. *The last state aid adjustment is required because the revenue recognition of last state aid payment in 2002-03 is not in conformity with GAAP based on GASB 33, but districts are legally required to recognize the revenue of the last state aid payment in their 2002-03 budgetary schedules*. This difference will be included in the required reconciliation contained in the footnotes to the General-Purpose Financial Statements.

**GASB 34 Model – differences will be included in the Required Supplementary Information – *Budgetary Comparison Schedule, Note to RSI*, Exhibit C-3.**

Please note that on the following example statement every possible account is listed. This is an optional format. Districts may list only those accounts that are applicable. In addition, the line (#) references on the example statements should not appear on the actual statements in the CAFR.

**Anytown School District**
**Special Revenue Fund**
**Statement of Early Childhood Program Aid**
**Budgetary Basis**
**For the Fiscal Year Ended June 30, 2003**

| | Total | | |
|---|---|---|---|
| | **Budgeted** | **Actual** | **Variance** |
| **EXPENDITURES:** | | | |
| **Instruction:** | | | |
| Salaries of Teachers | $ 808,954 | $ 743,268 | $ 65,686 |
| Other Salaries for Instruction | 253,474 | 252,365 | 1,109 |
| Other Purchased Services (400-500 series) | 325,000 | 315,000 | 10,000 |
| General Supplies | 110,500 | 82,500 | 28,000 |
| **Total instruction** | 1,497,928 | 1,393,133 | 104,795 |
| **Support services:** | | | |
| Personal Services - Employee Benefits | 142,072 | 136,589 | 5,483 |
| Purchased Professional - Educational Services | 25,000 | 5,689 | 19,311 |
| **Total support services** | 167,072 | 142,278 | 24,794 |
| **Facilities acquisition and const. serv.:** | | | |
| Instructional Equipment | 15,000 | 10,000 | 5,000 |
| Noninstructional Equipment | - | - | - |
| **Total facilities acquisition and const. serv.** | 15,000 | 10,000 | 5,000 |
| **Contribution to charter schools** | 20,000 | 20,000 | - |
| **Total expenditures** | $ 1,700,000 | $ 1,565,411 | $ 134,589 |

**CALCULATION OF BUDGET & CARRYOVER**

| | | |
|---|---|---|
| Total 2002-03 ECPA Allocation | $ 1,642,835 | (1) |
| Add: Actual ECPA Carryover (June 30, 2002) | 57,556 | (2) |
| Total ECPA Funds Available for 2002-03 Budget | 1,700,391 | (3) |
| Less: 2002-03 Budgeted ECPA (Including prior year budgeted carryover) | (1,700,000) | (4) |
| Available & Unbudgeted ECPA Funds as of June 30, 2003 | 391 | (5) |
| Add: June 30, 2003 Unexpended ECPA | 134,589 | (6) |
| 2002-03 Actual Carryover - ECPA | $ 134,980 | (7) |
| 2002-03 ECPA Carryover Budgeted in 2003-04 | $ 130,000 | (8) |

**Note to Preparer**

a) Since the 2002-03 actual carryover is more than the amount budgeted in 2002-03, the district should consider revising its 2003-04 ECPA budget .

b) Only districts with a DOE approved lease purchase may have funds remaining in the ECPA capital reserve account.

III. Distance Learning Network Aid and Instructional Supplement Aid

DLNA and ISA which is not expended or encumbered by June 30th of the budget year shall be classified as deferred revenue in the financial accounts and statements and shall be expended in the subsequent year budget for allowable costs. Specific approval for the use of DLNA and ISA carryover is not required.

Both of these restricted formula aids are accounted for in the special revenue fund. DLNA must be accounted for under the support and facilities acquisition and construction services functions. Intended uses of these funds were provided in supporting documentation Item 17. All expenditures from DLNA must support distance learning activities and services, to assist all pupils in achieving New Jersey's Core Curriculum Content Standards. Allowable expenditures are included in the State Aid/Grant Compliance Supplement. ISA must be accounted for under the instruction and support functions. Intended uses of these funds were provided in supporting documentation Item 18. All expenditures must provide supplemental services for students from low-income families, the same purpose as DEPA. However, expanded coding is not required by program.

The calculation of deferred revenue as of June 30, 2003 must include consideration of the audited June 30, 2002 deferred revenue carried over and included in the 2002-03 funds available for expenditure in 2002-03. Deferred revenue as of June 30, 2003 may be carried over and expended in 2003-04 for allowable costs as designated above. Specific approval for the use of DLNA and ISA carryover is not required.

Any unexpended or unencumbered DLNA or ISA must be reported as deferred revenue in the financial statements and in Schedule B, Schedule of Expenditures of State Financial Assistance. As part of the June 30th CAFR districts are required to prepare budgetary statements using the minimum outline required for the special revenue fund which must include the 2002-03 budgeted carryover for DLNA and ISA. This statement is the responsibility of the district. The State Aid/Grant Compliance Supplement should be referenced for compliance requirements and suggested audit procedures.

### *PREPARING THE DISTANCE LEARNING NETWORK AID (DLNA) RESTRICTED AID STATEMENT*

The *Statement of Distance Learning Network Aid* is prepared from the district records and is the responsibility of the district. This statement is to be included in the *Special Revenue Combining and Individual Fund and Account Group Statements and Schedules* **GASB 34 Model – include this schedule in the Special Revenue Fund section of Other Supplementary Information -** see table of contents for the pre GASB 34 or GASB 34 statements in The Audit Program. All districts eligible for Distance Learning Network Aid were required to track these expenditures in the special revenue fund using the uniform grant project budget statement coding structure.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted expenditures as well as calculate deferred revenue. This statement is to be prepared on the budgetary basis where "actual" equals the 2002-03 expenditures plus encumbrances at June 30, 2003. These encumbrances must be liquidated within 60 to 90 days. The "budgeted" amounts are to be taken from the district's 2002-03 certified budget on lines 13710 – 13900 of the Detailed Appropriations adjusted for any approved carryovers and/or transfers.

At the bottom of the statement is a calculation of the 2002-03 Available & Unbudgeted funds and the Actual Carryover as of June 30, 2003.

Line (1) represents the 2002-03 DLNA allocation. This amount can be obtained from the district's SA1NET *and is a budgetary amount which differs from the cash received by the amount of the last state aid payment which would be received in July, 2003.*

Line (2) represents the actual audited DLNA carryover as of June 30, 2002.

Line (3) represents the total 02-03 DLNA funds available for the 02-03 budget (the sum of Lines 1 & 2).

Line (4) represents the amount the district included in its DLNA budget for the fiscal year 2002-03, including the contribution to charter schools. Contribution to charter schools is a new budget line in 2001-02, line 13892.

Line (5) represents the difference between Line (3) and Line (4). If a district did not revise its budgeted original allocation (if different) or revise its budgeted June 30, 2002 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2003. Line (5) is then considered a component of the Actual Carryover – DLNA as of June 30, 2003.

Line (6) represents 2002-03 budgeted DLNA (Line 4) less the "total actual" for the program. This amount represents the unexpended/unencumbered DLNA.

Line (7) is the total Actual Carryover – DLNA as of June 30, 2003 and is the sum of Lines (5) and (6).

Line (8) can be found in the district's 2003-04 certified budget on line 423 of the Advertised Revenue Section. All carryover must be expended in subsequent years for allowable program expenditures.

The Actual Distance Learning Carryover is the difference between the budgeted amount and the actual amount. This carryover *less the revenue amount of last state payment amount* must agree to the total of the deferred revenue reported on Schedule B, *Schedule of State Financial Assistance*, under Distance Learning Network Aid. The deferred revenue amounts appearing in the *Combined Balance Sheet* of the General-Purpose Financial Statements **(GASB 34 Model – the *Governmental Funds Balance Sheet*, Exhibit B-1)** will be the total of the deferred revenue per the *Schedule of State Financial Assistance*, Schedule B, plus any encumbrance. *The last state aid adjustment is required because the revenue recognition of last state aid payment in 2002-03 is not in conformity with GAAP based on GASB 33, but districts are legally required to recognize the revenue of the last state aid payment in their 2002-03 budgetary schedules*. This difference will be included in the required reconciliation contained in the footnotes to the General-Purpose Financial Statements**.**

**GASB 34 Model – differences will be included in the Required Supplementary Information – *Budgetary Comparison Schedule, Note to RSI*, Exhibit C-3.**

Please note that on the following example statement every possible account is listed. This is an optional format. Districts may list only those accounts that are applicable.

**Anytown School District**
**Special Revenue Fund**
**Statement of Distance Learning Network Aid**
**Budgetary Basis**
**For the Fiscal Year Ended June 30, 2003**

| | Total | | |
|---|---|---|---|
| | **Budgeted** | **Actual** | **Variance** |
| **EXPENDITURES:** | | | |
| **Support services:** | | | |
| Salaries of Other Professional Staff | $ 14,877 | $ 14,877 | $ - |
| Other Purchased Services (400-500 Series) | 86,575 | 75,895 | 10,680 |
| Supplies & Materials | 21,548 | 21,548 | - |
| **Total support services** | 123,000 | 112,320 | 10,680 |
| **Facilities acquisition and const. serv.:** | | | |
| Buildings | 157,500 | 132,500 | 25,000 |
| Noninstructional Equipment | 100,000 | 100,000 | - |
| **Total facilities acquisition and const. serv.** | 257,500 | 232,500 | 25,000 |
| **Contribution to charter schools** | 17,500 | 17,500 | - |
| **Total expenditures** | $ 398,000 | $ 344,820 | $ 35,680 |

**CALCULATION OF BUDGET & CARRYOVER**

| | | |
|---|---|---|
| Total 2002-03 Distance Learning Network Aid Allocation | $ 378,925 | (1) |
| Actual Distance Learning Network Aid Carryover (June 30, 2002) | 20,000 | (2) |
| Total Distance Learning Network Aid Available for 2002-03 Budget | 398,925 | (3) |
| Less: 2002-03 Budgeted Distance Learning Network Aid (Including prior year budgeted carryover) | (398,000) | (4) |
| Available & Unbudgeted DLNA Funds as of June 30, 2003 | 925 | (5) |
| Add: 2002-03 Unexpended DLNA | 35,680 | (6) |
| 2002-03 Actual Carryover - DLNA | $ 36,605 | (7) |
| 2002-03 DLNA Carryover Budgeted in 2003-04 | $ 35,000 | (8) |

**Note to Preparer**

a) Since the 2002-03 Actual Carryover is greater than the amount Budgeted in 2003-04 the District should consider revising its 2003-04 DLNA Budget.

## *PREPARING THE INSTRUCTIONAL SUPPLEMENT AID (ISA) RESTRICTED AID STATEMENT*

The *Statement of Instructional Supplement Aid* is prepared from the district records and is the responsibility of the district. This statement is to be included in the *Special Revenue Combining and Individual Fund and Account Group Statements and Schedules* **(GASB 34 Model – include this schedule in the Special Revenue Fund section of Other Supplementary Information)** - see table of contents for the pre GASB 34 or GASB 34 statements in The Audit Program. All districts eligible for ISA were required to track these expenditures in the special revenue fund using the uniform grant project budget statement coding structure.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted expenditures as well as calculate deferred revenue. This statement is to be prepared on the budgetary basis where "actual" equals the 2002-03 expenditures plus encumbrances at June 30, 2003. These encumbrances must be liquidated within 60 to 90 days. The "budgeted" amounts are to be taken from the district's 2002-03 certified budget on lines 14010 – 14250 of the Detailed Appropriations adjusted for any approved carryovers and/or transfers.

At the bottom of the statement is a calculation of the 2002-03 Available & Unbudgeted funds and the Actual Carryover as of June 30, 2003.

Line (1) represents the 2002-03 ISA allocation. This amount can be obtained from the district's SA1NET and *is a budgetary amount which differs from the cash received by the amount of the last state aid payment which would be received in July, 2003*.

Line (2) represents the actual audited ISA carryover as of June 30, 2002.

Line (3) represents the total 02-03 ISA funds available for the 02-03 budget (the sum of Lines 1 & 2).

Line (4) represents the amount the district included in its ISA budget for the fiscal year 2002-03, including the contribution to charter schools.

Line (5) represents the difference between Line (3) and Line (4). If a district did not revise its budgeted original allocation (if different) or revise its budgeted June 30, 2002 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2003. Line (5) is then considered a component of the Actual Carryover – ISA as of June 30, 2003.

Line (6) represents 2002-03 budgeted ISA (Line 4) less the "total actual" for the program. This amount represents the unexpended/unencumbered ISA.

Line (7) is the total Actual Carryover – ISA as of June 30, 2003 and is the sum of Lines (5) and (6).

Line (8) can be found in the district's 2003-04 certified budget on line 424 of the Advertised Revenue Section. All carryover must be expended in subsequent years for allowable program expenditures.

The Actual Instructional Supplement Aid Carryover is the difference between the budgeted amount and the actual amount. This carryover must agree to the total of the deferred revenue reported on Schedule B, *Schedule of State Financial Assistance*, under Instructional Supplement Aid. The deferred revenue amounts appearing in the *Combined Balance Sheet* of the General-Purpose Financial Statements **(GASB 34 Model – the *Governmental Funds Balance Sheet*, Exhibit B-1)** will be the total of the deferred revenue per the *Schedule of State Financial Assistance*, Schedule B, plus any encumbrances. This difference will be included in the required reconciliation contained in the footnotes to the General-Purpose Financial Statements.

**GASB 34 Model – differences will be included in the Required Supplementary Information – *Budgetary Comparison Schedule, Note to RSI*, Exhibit C-3.**

Please note that on the following example statement every possible account is listed. This is an optional format. Districts may list only those accounts that are applicable.

**Anytown School District**
**Special Revenue Fund**
**Statement of Instructional Supplement Aid**
**Budgetary Basis**
**For the Fiscal Year Ended June 30, 2003**

| | Total | | |
|---|---|---|---|
| | **Budgeted** | **Actual** | **Variance** |
| **EXPENDITURES:** | | | |
| **Instruction:** | | | |
| Other Purchased Services (400-500 series) | $ 356,000 | $ 315,698 | $ 40,302 |
| General Supplies | 126,000 | 75,245 | 50,755 |
| **Total instruction** | 482,000 | 390,943 | 91,057 |
| **Support services:** | | | |
| Other Purchased Professional Services | 52,000 | 42,895 | 9,105 |
| **Total support services** | 52,000 | 42,895 | 9,105 |
| **Contribution to charter schools** | 23,000 | 23,000 | - |
| **Total expenditures** | $ 557,000 | $ 456,838 | $ 100,162 |

**CALCULATION OF BUDGET & CARRYOVER**

| | | |
|---|---|---|
| Total 2002-03 Instructional Supplement Aid Allocation | $ 550,000 | (1) |
| Actual Instructional Supplement Carryover (June 30, 2002) | 25,000 | (2) |
| Total Instructional Supplement Aid Available for 2002-03 Budget | 575,000 | (3) |
| Less: 2002-03 Budgeted Instructional Supplement Aid (Including prior year budgeted carryover) | (557,000) | (4) |
| Available & Unbudgeted ISA Funds as of June 30, 2003 | 18,000 | (5) |
| Add: 2002-03 Unexpended ISA | 100,162 | (6) |
| 2002-03 Actual Carryover - ISA | $ 118,162 | (7) |
| 2002-03 ISA Carryover Budgeted in 2003-04 | $ 100,000 | (8) |

**Note to Preparer**
a) Since the 2002-03 Actual Carryover is greater than the amount Budgeted in 2003-04, the District should consider revising its Budget.

***SECTION II – SPECIFIC COMPLIANCE***
***FUND 30 –CAPITAL PROJECTS FUND***

**Bond and Note Authorizations**

Bonds and notes authorized by the voters (Type II) or the Board of School Estimate (Type I) are reported as "Other Financing Sources" in the capital projects fund in the year of issuance/sale. Funds received from the sale of bond anticipation notes are not to be considered "Other Financing Sources." Refer to Chapter 13 of the GAAP Technical Systems Manual.

**GASB 34 Model**
Districts that are implementing GASB 34 will report the face amount of a bond issued as "Other Financing Sources" in the governmental funds statements (GASB 37, par. 16). Debt issuance costs paid out of proceeds should be reported as expenditures (GASB 34, par. 87). Bond debt is reported as a liability on the district-wide *Statement of Net Assets*.

The Board has no power to make contracts prior to voter approval (Type II) or adoption of an ordinance by the governing body (Type I). Overexpenditures in the capital projects fund are not a reportable condition unless the total project expenditures exceed the total bond authorization of the entire construction project.

**General Borrowing Authority**

The following discussion of statutory authority for boards of education to borrow funds is not intended to be comprehensive, but to provide district personnel and auditors an overview of statutes and regulations relating to borrowing authority for districts. A district board of education should consult with the board solicitor for interpretation of the law given the particular district's circumstances. Also refer to the Local Bond Law (*N.J.S.A.* 40A:2-1 et seq.) for further guidance when approvals by the Local Finance Board are required. District boards of education do not have statutory authority to borrow in anticipation of EDA/SCC grants, nor to borrow from banks or other lending agencies to finance acquisitions beyond those areas listed below. Regional school districts should refer also to *N.J.S.A.* 18A:13-26 et seq.

*N.J.S.A.* 18A:20-4.2. Powers of boards concerning real property [Lease Purchase Agreements]

- (f) The board of education may acquire with approval of the commissioner, the voters or board of school estimate as applicable, improvements or additions to school buildings through lease purchase agreements not in excess of five years. A district may, without separate approval, also acquire equipment through a lease purchase agreement not in excess of five years, or in the case of an agreement entered into for the acquisition of school buses not in excess of 10 years, provided that the amount of each installment payment is included in the budget submitted of the voters or board of school estimate, as appropriate. Lease purchase agreement refers to any agreement which gives the board of education as lessee the option of purchasing the leased equipment or improvements or additions to existing school buildings during or upon termination of the lease, with credit toward the purchase price of all or part of rental payments which have been made by the board of education in accordance with the lease.

- (h) The board of education may acquire through sale and lease-back textbooks and non-consumable instructional materials provided that the sale price and principal amount of the lease-back do not exceed the fair market value of the textbooks and instructional materials and that the interest rate applied in the lease-back is consistent with prevailing market rates or is less.

*N.J.A.C.* 6A:26-10.1 et seq. Lease Purchase Agreements

- Provides additional regulation on use, approval, contents of agreements of five years or less and of ground leases, procedures for refinance or defeasance of lease purchase agreements.

*N.J.S.A*. 18A:22-25 (Type I) or *N.J.S.A*.18A:22-44.1 (Type II). Borrowing against appropriation on notes

- The board of education may borrow after July 1 and before January 1 a sum not exceeding one half of the amount appropriated for the current expenses of the schools, repair and maintenance of a school facility (capital outlay) [Tax Anticipation Notes].

*N.J.S.A.* 18A:22-42. Borrowing upon notes in anticipation of taxes (Type II)

- Boards of education may borrow in anticipation of taxes to be raised, levied and collected for budgeted expenditures, the amount authorized, notes maturing not later than December 31 of the year in which such taxes shall be raised.

N.J.S.A. 18A:24-1 et seq. Loans, Bonds and Other Obligations

- Provides authorization in general for school district bonds and temporary notes and prescribes maturities, methods of payment, limitations, requirements of form and execution of bonds, sale and use of proceeds, and requirements when refunding.

*N.J.S.A.* 18A:24-2. Borrowing on tuition due from another district

- Districts may borrow an amount not exceeding 80% of the amount due for tuition from another school district.

*N.J.S.A.* 18A:24-3. Borrowing in anticipation of issuance of bonds [BANs]

- By board resolution, a district which has been authorized to issue bonds, may authorize the issuance of temporary notes or loan bonds as money is required for the projects for which the permanent bonds are authorized.

*N.J.S.A.* 18A:24-5. Purposes and maturities for which bonds may be issued

- Provides for the various maturities of bonds depending on the particular purpose with the maximum being 40 years.

*N.J.S.A.* 18A:24-61.1 et seq. Funding or refunding bonds at or prior to maturity

- Bonds issued by a district may be funded or refunded prior to maturity. Although there is no minimum period of time for the maturity schedule, *N.J.S.A*. 18A:24-61.8 establishes the maximum period of 40 years. The amount of refunding bonds is determined by the governing body of the municipality, county or board of education, as applicable, and must be approved by the Local Finance Board. The Local Finance Board in virtually all cases requires that the final maturity date of any refunding bond issue not exceed the final maturity date of the bonds begin refunded.

*N.J.S.A.* 18A:24-61.2, as amended by Chapter 42, P.L 2002, effective July 12, 2002 Refunding bond exclusions from net school debt

- Refunding bonds may be authorized and issued for the purpose of refunding the cost of retiring the present value of the unfunded accrued liability due and owing for early retirement incentive benefits granted by the board of education pursuant to P.L.1991, c.231 and P.L.1993, c.163.
- The cost or expense of issuing refunding bonds including printing, advertising, accounting, and financial, legal or other expense in connection therewith may be added to the issue.
- The issuance must be preceded by a "refunding bond ordinance" adopted by the board of education of the school district.

*N.J.S.A*. 18A:20-4.2, as amended by P.L. 2000, c.72 (*N.J.S.A*. 18A:7G-1 et al.) Acquisition, improvement, lease, etc. of property for school purposes; authority of board of education

- Financing a capital project may be by issuance of certificates of participation for a lease purchase agreement greater than five years only if approved by the Commissioner of Education and the Local Finance Board in the Divisions of Community Affairs prior to EFCFA (July 18, 2000).

**Bond Sales and Capital Projects Fund Activities**

All proceeds related to the sale of bonds are recorded in the capital projects fund. The board cannot use a premium in excess of the bond authorization or the accrued interest for capital purposes since the board is limited by the amount voted or certified. Receipts from premiums in excess of the authorization are transferred to the general fund or debt service fund. Receipts from accrued interest are transferred to the debt service fund.

Because of statutory limitations, interest earned on the investment of unexpended cash balances in the capital projects fund must be transferred by board of education resolution to either the debt service fund or the general fund at the discretion of the board of education. Interest earned cannot be used for the referendum project(s) unless expressly authorized, with the amount, in the referendum. Any amounts not transferred at June 30th must be recorded as an interfund receivable/payable. Other important issues related to the general fiscal administration of the capital projects fund are discussed in Policy Bulletin 200-13 dated October 1992. Guidance is also found in *N.J.A.C*. 6A:26-4 and the October 2001 guidance issued by NJDOE on *EDA Accounting* and on *Capital Reserve Accounting and Recording*. The proper accounting procedures related to capital projects are included in Chapter 11 of the GAAP Technical Systems Manual.

**Capital Project Approval under Educational Facilities Construction Financing Act (EFCFA)**

Under EFCFA, effective July 18, 2000, districts may not advance a school facilities project for which it is seeking state support or an other capital project (as defined in *N.J.A.C.* 6A:26-1.1), until the school district has an approved LRFP and has received specific project approval of the school facilities or other capital project. Only school facilities projects approved under the waiver process or approved as an emergent school facilities project under *N.J.A.C.* 6A:26-3.16 may proceed without an approved LRFP. Districts which have begun a school facilities project or other capital project after the passage of EFCFA, should have available for auditors a copy of the DOE final determination letter (approval of the LRFP) and a copy of the school facilities or other capital project approval letter.

Non-Abbott districts must obtain voter approval or board of school estimate approval for the local amount of the capital project (pursuant to *N.J.A.C.* 6A:26-3.7 and 3.12) or use capital reserve pursuant to *N.J.A.C.* 6A:26-9.1. State support for the project is available once the district secures financing for the local amount of the project.

Pursuant to *N.J.A.C.* 6A:26-3.7(e) and (g), the bond referendum (or board resolution for Type I or Type II districts having a board of school estimate) must identify the final eligible costs of the project, as determined by the Commissioner of Education, the total costs, state share or state debt service percentage, the local share and the amounts that are in addition to the facilities efficiency standards. If the district is using a combination of school bonds and other financing sources, the referendum question must also include the portion of the local support to be raised through other revenue sources, listing separately each source and the amount from that source.

**Unexpended Bond Proceeds**

A capital project is considered completed for the purposes of determining unexpended bond proceeds when the project has received its certificate of completion from the contractor; all retainage has been liquidated; and a permanent certificate of occupancy has been received, if applicable (*N.J.A.C.* 6A:26-4.6(a)).

Pre-EFCFA
Any proceeds of school bonds issued by the district for a school facilities project prior to the effective date of EFCFA, and that received no funding under EFCFA except for retroactive funding received pursuant to *N.J.A.C.* 6A:26-13.1(b), or issued by the district for an other capital project (as defined under *N.J.A.C.* 6A:26-1.2), which remain unspent upon completion of the capital project, shall be disposed of by the district in accordance with *N.J.S.A*. 18A:24-47 et seq.

1. Unexpended balances may remain in the capital projects fund for six years after the time of issuance or sale of bonds.
2. Within six years of issuance or sale, if a new purpose(s) for the unexpended balances is determined, the board of school estimate, capital projects review board, or voters may approve the change in purpose by resolution or ballot question. The resolution or ballot question for the new purpose shall receive Commissioner approval if the bonds mature beyond the period prescribed for the new purpose(s) by *N.J.S.A.* 18A:24-5.
3. If no new purpose for the unexpended balances is determined within the six years from issuance or sale, the board of education may transfer the funds to either the general fund or debt service fund by board resolution. To meet the criteria for no new purpose, the district's budgeted appropriations and actual expenditures for the year of the transfer may not reflect capital outlay spending.
4. After six years of issuance or sale, unexpended balances must be transferred to either the general fund or the debt service fund by board resolution.

EFCFA
1. Pursuant to *N.J.A.C*. 6A:26-4.6(c), any proceeds of school bonds issued by the district for the purpose of funding a non-EDA constructed school facilities project after the enactment of EFCFA which remain unspent upon completion of the school facilities project shall be used by the district to reduce the outstanding principal amount at the earliest call date or annually reduce the debt service principal payments.
2. If the unexpended proceeds are used to annually make debt service principal payments, the proceeds must remain in the capital projects fund and be appropriated in each subsequent year's budget certified for taxes to reduce the debt service principal payment in full each year until the proceeds are exhausted.

**Unexpended Project Funds - Other Funding Sources**

1. Upon completion by the EDA of a school facilities project, any local share required to be returned to the district pursuant to *N.J.S.A*. 18A:7G-5(p) and *N.J.A.C*. 6A:26-3.7(h), shall be used by the district to reduce the outstanding principal amount of any school bonds issued by the district for said local share. The principal amount shall be reduced at the earliest call date or annually through the reduction of the debt service principal payments in accordance with *N.J.A.C*. 6A:26-4.6(c).
2. If school bonds were not issued for said local share or the principal amount has been fully repaid, the local share returned shall be recorded as revenue in the district's general fund.
3. Any unexpended transferred capital outlay and/or capital reserve funds remaining after completion of the school facilities project must be reserved and designated in the subsequent year's budget. Refer to Section II-10.13 for further discussion.

**Economic Development Authority (EDA) Grants under EFCFA**

All grants received from the EDA pursuant to *N.J.S.A*. 18A:7G-15 for the state share of approved school facilities projects, except for grants received for retroactive funding under *N.J.A.C*. 6A:26-13.1(c) for completed projects that did not issue short term notes, are recorded by project in the capital projects fund along with the corresponding local share. Pursuant to *N.J.A.C*. 6A:26-3.8(a)(3) and 6A:26-9.1(g), local share budgeted in capital outlay or withdrawn from capital reserve must be transferred to the capital projects fund upon execution of the grant agreement with EDA. **Districts may award contracts only after the EDA grant is signed and executed. Revenue for the state share cannot be recorded until the agreement is signed and executed (*N.J.A.C.* 6A:23-2.11(c), GAAP). The corresponding local share is transferred to the capital projects fund only when the agreement is signed.**

**General Rules for EDA Grant Recording:**

District staff and auditors should refer to the memorandum with attachments issued by NJDOE October 19, 2001, titled *Procedures for Recording and Accounting for Capital Reserves and EDA Grants* for additional guidance and examples on accounting for EDA grants.

Generally Accepted Accounting Principles require that capital grants or shared revenues restricted for capital acquisitions or construction (other than those associated with enterprise and internal service funds) be accounted for in a capital projects fund (Fund 30). EDA grants are capital grants. The following is a summary of procedures to be followed for EDA Grants.

1. As stated in the regulations, the EDA grants (except for some retroactive grants received for projects that were fully locally funded and completed in 2000-01 as explained in (4) below) plus the local support are to be recorded in the capital projects fund. (*N.J.A.C*. 6A:26-4.1(a) and (b)).

2. If a non-referendum project receives an EDA grant, per regulations, the grant must be accounted for in Fund 30 and the transfer of local funding sources (capital reserve, capital outlay) to Fund 30 should occur upon execution of grant agreement. (*N.J.A.C*. 6A:26-4.3(a) and (b)).

3. If the capital project is approved via referendum question, upon voter approval of referendum, which should have included all other local funding sources (e.g. capital reserve, surplus), any local sources identified in the question should be transferred to Fund 30. Upon issuance of the bond, bond proceeds would be recorded, along with the local funding sources, and EDA grant in Fund 30. (*N.J.A.C*. 6A:26-4.1(d)).

4. For capital projects that received retroactive grants in 2002-03 that were fully funded locally (Fund 12 and/or Fund 20 - early childhood program aid – no referendum question) and completed in a prior year, the EDA retroactive grant received in 2002-03 is to be recorded in the corresponding fund that originally funded the project.
    - If completed in a prior year using capital outlay and/or early childhood program (ECP) funds, the grant should be recorded in Fund 11 as miscellaneous unrestricted state aid with a
    - Transfer to Fund 20 (general fund transfer) of the proportionate share of the project paid from ECP monies.
    - EDA retroactive grants reimbursing early childhood program funds must be used for early childhood programs and services in Fund 20.

5. For capital projects eligible for retroactive grants where the anticipated amount of the grant was funded with bond anticipation notes and the local funding source was capital outlay, the EDA grant is to be recorded in Fund 30 to repay the notes.

6. For retroactive grants received for referenda approved projects, the grant should follow general rules for recording and accounting for EDA grants in Fund 30 as described above in 1-3 and under the regulations. (*N.J.A.C.* 6A:26-4.1 et seq.).

**Overexpenditures**

A number of situations have been reported to the department where local school districts overexpended a capital projects fund authorization and in some cases used unauthorized methods to fund the overexpenditure. In managing capital projects, the Business Administrator must certify the availability of funds before the board can award contracts and/or a change order on a capital project that increases the cost of the project. (*N.J.A.C.* 6A:26-4.9(a)(3)). In no instance can approval of change orders increase the cost of the project above the bond referendum approved amount.

Overexpending a capital project authorization has serious consequences. Under the New Jersey Code of Criminal Justice, it is a crime for a public official or employee to knowingly disburse, order, or vote for the disbursement of moneys or incur obligations in excess of appropriations or an amount limited by law (See *N.J.A.C.* 6A:26-4.5 and Division of Finance Policy Bulletin 200-11 issued July 1991). The Department will notify the Office of the Inspector General and may notify the Director, Division of Criminal Justice if an over-expenditure/deficit is detected in a capital project. A district over-expending the capital projects fund is also subject to a reduction in its state aid and other actions pursuant to *N.J.A.C.* 6A:23-2.11 and *N.J.A.C.* 6A:26-14.1 et seq. if applicable.

In the event that local school districts overexpended capital projects funds or otherwise violated the procedures described by *N.J.A.C.* 6A:23-2.11 and Division of Finance Policy Bulletin 200-13 issued October 1992, auditors must include appropriate comments and recommendations and the amount in the Auditor's Management Report.

**Rebatable Arbitrage**

The interest paid on debt issued for public purposes by school districts is not generally subject to federal taxation. Accordingly, purchasers of securities are prepared to accept a lower rate of interest on tax-exempt debt than they would on taxable debt of similar quality and duration. "Arbitrage" occurs when a school district profits from this spread in interest rates by investing funds borrowed at the lower tax-exempt rate of interest in higher yielding, taxable securities.

There are certain exceptions that allow arbitrage earnings and they are defined in the IRS Code Sec. 148. A school district may not be required to remit arbitrage rebate payments until several years into the future, but it still must recognize a liability for rebatable arbitrage as soon as it is both probable and measurable that a liability has been incurred. In calculating the amount of the liability, it should be noted that "excess" earnings of one year may be offset totally or in part by lesser earnings in a subsequent year. Therefore, the liability recognized for the year should be only that portion of the estimated future payment that is attributable to earnings of the current period. Typically, arbitrage rebate payments must be made to the federal government every five years and within 60 days of final maturity.

There are two different ways to account for rebatable arbitrage. The first approach is to treat excess earnings as a reduction of interest revenue (if this approach is taken, the liability for rebatable arbitrage is reported in the capital projects fund, rather than in the GLTDAG, even if the liability is not expected to be paid until several years into the future). The second approach is to treat rebatable arbitrage like a claim or judgment. Using this approach, all interest income, regardless of whether it is rebatable, would be reported as revenue of the capital projects fund. The liability for rebatable arbitrage would then be reported in the GLTDAG until due.

**GASB 34 Model** – districts should refer to this Audit Program, section II-90.1 and 2 for current guidance on rebatable arbitrage.

> *Auditor's Note* – At the close of construction, both the liability for rebatable arbitrage and related assets typically are removed from the capital projects fund and reported instead in the debt service fund.

**Secondary Market Disclosures**

All school districts should consult with their bond counsel to determine the information disclosures required in accordance with Securities and Exchange Rules, as well as the filing due date and the municipal and state information repository addresses.

**Lease Purchase Agreements**

Under EFCFA effective July 18, 2000, districts may no longer enter into lease purchase agreements of more than five years duration for the acquisition of a site and building; the acquisition of a site for the construction of new school facilities; or to make additions, alterations renovations and improvements to existing buildings. Lease purchase agreements in excess of five years duration entered into prior to July 18, 2000 may continue in effect through the term of the agreement (*N.J.A.C.*6A:26-10.8).

Districts may reference the 2001-02 Audit Program for specific details relating to pre-EFCFA lease purchase agreements (greater than 5 years) involving certificates of participation (COPS), such as accounting, disclosure requirements, and advance refunding of the agreements. The 2001-02 Audit Program is available on the NJDOE web site http://www.nj.gov/njded/finance/fp/audit/.

Under EFCFA, a district may acquire improvements or additions to school facilities through lease purchase agreements of five years or less provided that the lease purchase agreement provides for the funding in full to the district upon commencement of construction of the school facilities project. A district may utilize a lease purchase agreement of five years or less to fund the local support of a school facilities project provided the capital project is not constructed under the auspices of the Economic Development Authority (EDA). The Commissioner will only approve a lease purchase of five years or less which does not include excess costs as defined under *N.J.A.C.* 6A:26-1.1. A lease purchase agreement of five years or less for improvements or additions to school facilities project that includes excess costs or to an other capital project must be approved by the voters, board of school estimate or capital project review board. Under EFCFA, a district may also acquire equipment through a lease purchase of five years or less but such acquisition does not require Commissioner or voter approval. Lease purchase agreement payments for five years or less are to be recorded as an expenditure of the general fund   Districts and auditors should reference *N.J.A.C*. 6A:26-10.1 et seq. for lease purchase agreements or approval procedures to refinance a lease purchase agreement.

Accounting and Reporting Requirements:  The Codification Section L20.103 states that "subject to the accounting and financial reporting distinctions of governmental funds, the criteria of FASB Statement No. 13, *Accounting for Leases*, as amended and interpreted, should be the guidelines for accounting and financial reporting for lease agreements...".

## *SECTION II – SPECIFIC COMPLIANCE*
## *FUND 40 –DEBT SERVICE FUND*

**District Taxes**

District taxes must be recorded in the fund for which they were voted (Type II) or were certified by the Board of School Estimate (Type I). Debt Service requirements in Type II districts are certified directly by the secretary. In Type I districts the school debt service is part of the municipal budget and not reflected in the Type I school district's CAFR. Additional amounts certified to the county board of taxation after the issuance of tax bills by the municipality will be shown as an adjustment on the district's subsequent year's certificate and report of school taxes. These adjustments are generally the result of additional certifications for unanticipated debt service expenditures and should be reported as revenue via the accrual of a tax levy receivable.

The auditor should comment on any uncollected taxes as of June 30th (other than the special accruals referred to above), and make a recommendation that the board of education request the remittance of the balance from the municipality.

**Debt Service Aid**

Districts were notified of debt service state aid for the 2002-03 budget in March 2002 and provided with the state aid printouts CEIFA-SA17a and CEIFA-SA17b. Revised debt service state aid printouts for 2002-03 aid were run and distributed in February 2003 with reports for the 2003-04 state aid. The revised CEIFA-17a or 17b for 2002-03 will show the adjusted total debt service aid amount for that year. The amount of the adjustment for 2002-03 is shown at the bottom of the 2003-04 CEIFA-SA1NET distributed in February 2003. The auditor should obtain a copy of the Debt Service Aid reports (SA17a and SA17b) for both 2002-03 and 2003-04.

For a complete explanation of these two reports, auditors should refer to the Explanatory Notes for the SA17a and SA17b Reports, Debt Service Aid for the 2002-03 Fiscal Year distributed to school districts with the debt service aid printouts of March, 2002.

The entry to establish the accounts receivable and recognize the deferred revenue for an increase in Type II debt service aid is shown below. No entry is required to revise the debt service budget since all debt service revenue changes are deferred until 2003-04.

Debt Service Fund
Dr. Intergovernmental Accounts Receivable – State (A/C 40-141)
    Cr. Deferred Revenues (A/C 40-481)

**Rebatable Arbitrage**

As indicated in Section II, Chapter 30, at the close of construction in the capital projects fund, both the liability for rebatable arbitrage and related assets typically are removed from the capital projects fund and reported instead in the debt service fund.

**Budget Transfers**

In accordance with *N.J.S.A*. 18A:22-8.2, no transfer may be made under this section from appropriations or surplus accounts for interest and debt redemption charges or items classified as general fund expenses except to other items so classified, or to the capital projects fund to supplement the proceeds from a bond authorization. Pursuant to *N.J.S.A*. 18A:7G-31(c), a district board of education may, by board resolution, transfer capital reserve funds to the debt service fund for the purpose of offsetting principal and interest payments for bonded projects which are included in the district's long-range facilities plan.

***SECTION II – SPECIFIC COMPLIANCE***
***FUND 50 PROPRIETARY FUNDS***

## PROPRIETARY FUNDS

Proprietary funds are used to account for district activities that are similar to business operations in the private sector. They are not used to account for the normal operations of a district regardless as to whether the operations include services provided to outside parties that are offset by revenues such as tuition or adult education fees. There are two categories of proprietary funds -- enterprise funds and internal service funds. The use of these fund types should be consistent with GAAP (GASB Codification 1300.104). Additional guidelines for districts using the internal service fund to account for shared services are outlined *N.J.A.C.* 6A:23-2.13.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business operations. The most common examples of enterprise funds in New Jersey school districts are those established to account for the food services program of the district and latchkey programs**. All the expenses of these operations are accounted for in the funds with any board contribution shown as a transfer to cover deficit in the general fund and as an operating transfer in the enterprise fund.**

> *Auditor's Note* – The Transfer to Cover Deficit included in the general fund **must** reconcile to the Operating Transfer – Board Contribution reflected in the enterprise fund. The department has included an edit in the Audsum diskette to identify this discrepancy and recommends completing the Audsum diskette prior to filing the CAFR. The Transfer to Cover Deficit should be reflected as an Other Financing Use on Exhibit B-2 in the general fund.

**GASB 34 Model** – There will be little change in the proprietary financial statements resulting from GASB 34. Capital Contributions are not reported as a separate component of net assets in the *Statement of Net Assets*, but continue to be reported as such in the funds statements. District staff and auditors should refer to GASB 34, paragraphs 91 through 105 for guidance on proprietary fund financial statements.

Districts should use internal service funds to account for the financing of goods or services provided by one department or office to other departments or offices of the district board of education, or to other district boards of education and governmental units, on a cost-reimbursement basis. Internal service funds are cost accounting and distribution entities, and are intended to "break even" annually and/or over a period of years. The use of an internal service fund does not provide additional revenue or expenses to the district but acts as a means to document the sharing of the costs. Use of this fund replaces the prior common practice of "refunding" expenditure accounts for shared services. Some activities that may be accounted for in an internal service fund are central purchasing and warehousing, central motor pools, central printing and duplicating or central data processing departments. Joint transportation agreements where the lead district uses its own employees and buses are accounted for in an internal service fund. Joint transportation agreements where the lead district contracts with a vendor are accounted for in the general fund.

Arrangements for sharing the costs of administrative and other non-instructional personnel and related costs under joint agreements where the employees remain under the employment of one lead district would also be accounted for in an internal service fund in the records of the lead district. Each of the "sharing" districts, including the employing lead district, should reflect their agreed-upon portion of the costs in the general fund. For the employing district, that cost would be budgeted as a salary expenditure. The "sharing" districts would account for the payments made to the lead district as a contracted service under the appropriate function. If the shared employees have employment contracts with each of the districts involved, each district's share of the employees' salary and related costs would be budgeted and expended against the appropriate salary and other accounts and there would be no need for any of the districts involved to establish an internal service fund.

- The district board of education providing the shared service shall allocate the costs on a user charge basis to all participating entities on an annual basis at a minimum.
- User charges should be reported by entities or funds being serviced by the internal service fund in the applicable line item account for the goods or services received.
- Sales and purchases of goods and services for a price approximating their external exchange value should be reported as revenues ("Services Provided to Other Funds"). The total user charges should approximate the total costs of the internal service fund.

Local school district auditors should refer to Chapter 14 of the GAAP Technical Systems Manual for additional guidance. As a reminder, the costs of instructional programs, including regular, special, or adult education, should be accounted for in the general fund. The one exception would be those districts which contract with the Department of Education to run its Regional Day Schools.

**Food Service – Enterprise Fund**

Boards of Education may contract with food service management companies (FSMC) to equip, supply and operate cafeterias without profit to the district pursuant to *N.J.S.A*. 18A:33-3. Every contract for the services of a food service management company should meet federal standards and procurement requirements pursuant to Title 7 of the Code of Federal Regulations pursuant to N.J.S.A. 18A:18A-42.1.

All districts rebidding their FSMC Contract for school year 2002-2003, must rebid their new contract pursuant to the NEW Public School Contracts Law, *N.J.S.A*. 18A:18A-1 et seq. amended P.L. 1999, c.440. All other districts not rebidding for School year 2002-2003 will finish their contract duration under the specifics of *N.J.S.A. 18A*:18A-42.1 until the life of the current contract cycle ends (minimum one year/ maximum two years). This is for all FSMC contracts bid PRIOR to the implementation of the NEW Public School Contracts Law.

The most widely used contract method in New Jersey is referred to by the Accounting Guide for Government Contracts as the "cost plus a fixed fee (management fee) contract." The food service management company receives a set fee for managing the food service operation and the board is liable for the reimbursement of all costs incurred. Regardless of the contract method, the local board of education is considered the School Food Authority. Federal regulations prohibit contracts that permit all receipts and expenses to accrue to the food service management company. Even if federal reimbursements are not received, schools using management companies and retaining liability for costs incurred are considered the School Food Authority.

As School Food Authorities, daily cash sales and State and Federal reimbursements are school moneys and subject to the State's school laws. Management companies may handle the preparation of food, placing of orders for food and supplies and other associated administrative duties, but they are not permitted under state law to administer or hold school funds.

The following procedures should be implemented in order to comply with state laws for administering school moneys.

1. The income from daily cash sales and State and Federal reimbursements must be under the control of the treasurer of school moneys in any bank or banking institution of this state designated by the board of education as a depository of school moneys. Such funds may be deposited in the Board's general operating account. A separate food service account is not required. (*N.J.S.A*. 18A:17-34)

   Receipts and disbursements of food service funds must be separately accounted for in the records of the treasurer and board secretary. The board secretary should maintain the cash records in accordance with The Uniform Minimum Chart of Accounts (Handbook 2R2).

   When the board budgets funds in its general fund budget in account 11-000-310-930, Transfers to Cover Deficit, those funds may be transferred to the Enterprise Fund at the end of the year for the actual amount, if any. If made prior to the end of the year, any amount of the transfer not needed for a deficit may be refunded to the general fund.

2. The board may by resolution designate the board secretary or another person to approve payments without board approval to expedite the payment process. All such payments must be issued on properly signed warrants and subsequently ratified by the board. The board's resolution may limit the authorization to certain purposes such as the school food service reimbursements and may also limit the dollar amount per payment or month. (*N.J.S.A*. 18A:19-1, 2, 4 and 4.1)

3. Loans or advances from the board to a food service management company are prohibited. All claims and demands must state that articles have been furnished or services rendered before payment can be made. (*N.J.S.A*. 18A:19-3)

4. Food service management companies may negotiate the cost reimbursement dates with the board. However, no interest may be charged on payments which are not made within the negotiated dates.

5. The food service management company must provide itemized claims for services and goods to the board secretary for reimbursement.
   a) The food service management company should process payroll data in such a way that the board secretary can reimburse it in time for payroll checks to be issued. A one week lag between payroll period and check disbursement should provide sufficient time for all necessary verifications and payments.
   b) The food service management company must submit an itemized claim for reimbursement for all goods and services. Reimbursement claims for payroll should include either a copy of the company's payroll for those employees providing service to the district or an itemized listing of employees, check numbers and date, hours worked and earnings. In the latter scenario, payrolls and support documentation must be made available whenever requested by the board secretary and for the annual audit.

   When the food service management company purchases specifically for the school district, reimbursement claims for goods should list invoice numbers, dates, vendor names and amounts (Sample 1 on page II-50.5). If the food service management company purchases food in bulk for a number of districts, it may use the above method allocating invoice amounts between districts based on the percentage of each district's student enrollment (or participation) to the total enrollment for all schools (Sample 2 in Section II, Chapter 50). It may also use a per meal cost calculation based on the total amount of the invoices divided by the total meals served to all districts. Each district's pro-rata share of the costs would be the per meal cost multiplied by the meals served in each district (Sample 3 in Section II, Chapter 50).

When a food service management company submits an itemized claim for reimbursement, it is not necessary to provide vendor invoices. However, they must be made available whenever requested by the board secretary and for the annual audit.

6. The board of education and the food service management company should work closely to minimize the time of reimbursements and to avoid cash flow problems. However, a food service management company may need to establish a line of credit if the timing of reimbursements is not sufficient to make its payrolls. Interest paid is an allowable cost of the contract in such situations.

The foregoing procedures are recommended by the department to comply with the state's statutes for administering school funds. However, these procedures do not replace but rather supplement the requirement contained in 7 CFR 210.16 that all books and records of the food service management company pertaining to the school food service program shall remain the property of the school district. Auditors must include appropriate comments and recommendation in the event that funds are not properly administered as described in Division of Finance Policy Bulletin 200-12.

**SAS #70 Reports**

In accordance with SAS #70, as amended by SAS #88, school district auditors may evaluate the internal controls of a food service management company by relying upon the opinions of a "service auditor" of the food service management company's internal control system. To that end, school districts must only contract with food service management companies that can provide an audit opinion on said company's system of internal control. Beginning in 1994-95, all food service management company bid specifications, contracts and/or addenda must include this requirement as a condition of bid qualification.

**SAMPLE 1**

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

New City School District
Highland Street
Old Town, NJ 08111

For reimbursement of costs incurred related to the provision of food services for the schools of the New City School District during the month of September 200X. The costs incurred are listed below:

| Invoice # | Date | Vendor Name | Amount |
|---|---|---|---|
| 06932 | 8/31/0X | Bakeland | $2,398.61 |
| 12555X | 9/02/0X | Murray's Meats | 6,779.38 |
| 431182 | 9/03/0X | Polly's Produce | 796.54 |
| 218812 | 9/07/0X | Dan's Dairy | 877.32 |
| 06988 | 9/07/0X | Bakeland | 531.89 |
| 12682X | 9/07/0X | Murray's Meats | 153.90 |
| 431906 | 9/13/0X | Polly's Produce | 591.83 |
| 219601 | 9/24/0X | Dan's Dairy | 877.32 |
| | | Total | $13,006.79 |

Please remit the above amount by November 15, 200X. The listed invoices are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

**SAMPLE 2 (1 of 2)**

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

New City School District
Highland Street
Old Town, NJ 08111

For reimbursement of the New City school district's pro-rata share of costs related to the shared food services program provided by our company. The allocation is based on the number of students participating at each school. See the attached cost allocation detail supporting the amount charged.

For the month of September 200X $3,107.21

Please remit the above amount by November 15, 200X. The invoices listed on the attached cost allocation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

NEW CITY SCHOOL DISTRICT FOOD SERVICES ALLOCATION

| Invoice # | Date | Vendor Name | New City | Upper | Lower | Middle | Total |
|---|---|---|---|---|---|---|---|
| | | | 19.7% | 14.1% | 27.8% | 38.4% | 100.0% |
| | | | | | | | |
| 6932 | 8/31/200X | Bakeland | $208.09 | $148.94 | $293.65 | $405.61 | $1,056.29 |
| 12555X | 9/2/200X | Murray's Meats | 689.23 | 493.31 | 972.62 | 1,343.48 | 3,498.64 |
| 431182 | 9/3/200X | Polly's Produce | 176.45 | 126.29 | 249.00 | 343.94 | 895.68 |
| 218812 | 9/7/200X | Dan's Dairy | 632.22 | 452.50 | 892.17 | 1,232.35 | 3,209.24 |
| 6988 | 9/7/200X | Bakeland | 118.77 | 85.01 | 167.61 | 231.51 | 602.90 |
| 12682X | 9/7/200X | Murray's Meats | 692.86 | 495.91 | 977.75 | 1,350.55 | 3,517.07 |
| 431906 | 9/13/200X | Polly's Produce | 112.21 | 80.31 | 158.34 | 218.71 | 569.57 |
| 219601 | 7/13/200X | Dan's Dairy | 477.38 | 341.68 | 673.66 | 930.52 | 2,423.24 |
| | | | | | | | |
| | | Total | $3,107.21 | $2,223.95 | $4,384.80 | $6,056.67 | $15,772.63 |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | No. of Students | | | | |
| | | | Participating | Percentage | | | |
| | | | | | | | |
| | | New City | 630 | 19.7% | | | |
| | | Upper | 452 | 14.1% | | | |
| | | Lower | 889 | 27.8% | | | |
| | | Middle | 1,230 | 38.4% | | | |
| | | Total | 3,201 | 100.0% | | | |

SAMPLE 2 (2 of 2)

**SAMPLE 3 (1 of 2)**

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

New City School District
Highland Street
Old Town, NJ 08111

For reimbursement of the New City school district's pro-rata share of costs related to the shared food services program provided by our company. See the attached per meal cost calculation supporting the amount charged.

| | |
|---|---|
| For the month of September 200X | |
| 1,598 meals @ $2.45 meal | $3,910.60 |

Please remit the above amount by November 15, 200X. The invoices listed on the per meal cost calculation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

**SAMPLE 3 (2 of 2)**

| NEW CITY SCHOOL DISTRICT FOOD SERVICES ALLOCATION | | | | | |
|---|---|---|---|---|---|
| | | | Invoice | | |
| Invoice # | Date | Vendor Name | Amount | | |
| 6932 | 8/31/200X | Bakeland | $2,398.61 | | |
| 12555X | 9/2/200X | Murray's Meats | 6,779.38 | | |
| 431182 | 9/3/200X | Polly's Produce | 796.54 | | |
| 218812 | 9/7/200X | Dan's Dairy | 877.32 | | |
| 6988 | 9/7/200X | Bakeland | 531.89 | | |
| 12682X | 9/7/200X | Murray's Meats | 153.90 | | |
| 431906 | 9/13/200X | Polly's Produce | 591.83 | | |
| 219601 | 7/13/200X | Dan's Dairy | 877.32 | | |
| | | Total | $13,006.79 | | |
| | | School District | # of Meals | Price/meal | Amount |
| | | New City | 1,598 | $2.45 | $3,910.60 |
| | | Upper | 1,299 | $2.45 | $3,178.90 |
| | | Lower | 1,243 | $2.45 | $3,041.85 |
| | | Middle | 1,175 | $2.45 | $2,875.44 |
| | | Total | 5,315 | $2.45 | $13,006.79 |

**Child Nutrition Program Requirements**

Please refer to the sample format for School Food Service Fund Exhibits F-1, F-2 and F-3 in Financial Reporting for New Jersey School Districts, A Sample Comprehensive Annual Financial Report, The CAFR for required financial statements. **GASB 34 Model** – also refer to the sample Proprietary Fund statements (Exhibits B-4, B-5, and B- 6) on the NJDOE web site: http://www.state.nj.us/njded/finance/fp/gasb34/.

In addition, report on the condition of the financial transactions and statistical records of the School Food Service Fund. This should include a review of monthly reimbursement vouchers, meal count records, Edit Check Worksheets, and eligibility applications. Determine whether there are controls providing reasonable assurance that all meals reported to the state agency for reimbursement are based on accurate counts and are served to eligible children.

1. Suggested audit procedures to ensure that reimbursement received is supported by source documents.

   a) ELIGIBILITY APPLICATIONS - Review eligibility applications to evaluate completeness of required information and verify eligibility determination. Any incomplete free or reduced price applications should be given to the determining official for completion. Free applications that are not available or incorrectly determined must also be cited as an exception under Demonstrably Effective Program Aid, Early Childhood Program Aid, and Instructional Supplement Aid where applicable.

      Applications may also have been determined through the Direct Certification Process. Please refer to April 2002 Memo, "Direct Certification for Free Meal/Free Milk Benefits for School Year 2002-2003."

      Schools participating in Provision 1 or 2 are not required to collect eligibility applications annually. Please refer to eligibility requirements set forth in the April 30, 2002 Memo, "Application Process for Provisions 1 and 2".

      **Multi-child Family/Household Application for Free and Reduced Price Meals FY 2003 Expanded Statewide Pilot Project** - Eighteen public school districts specifically identified in the June 14, 2002 memo are participating in this pilot project for school year 2002-03. School districts were required to centrally collect and maintain applications.

   b) MEAL COUNT RECORDS - Review meal count records on a school-by-school basis to verify meals claimed on reimbursement vouchers. Edit Check Worksheet(s) must be completed for every reimbursement voucher submitted and the required comparisons made before completing the reimbursement voucher. Any meals denied free or reduced priced eligibility should be credited at the paid rate of reimbursement.

      Unsupported reimbursement must be cited as a finding of noncompliance and a financial assessment identified on the Schedule of Meal Count Activity (Overclaim/Underclaim). Provide pertinent detail, i.e. school, month.

2. Verification Regulations issued by the United States Department of Agriculture require pricing sponsors of the National School Lunch and School Breakfast Programs to verify a minimum number of approved applications on file as of October 31 of each school year. Sample selection and verification may begin earlier based on projections done by school officials. Each sponsor must select one of the two following methods to satisfy the verification requirements:

a) RANDOM SAMPLE - The lesser of 3 percent or 3,000 of approved applications selected randomly; ***OR***

b) FOCUSED SAMPLE - The lesser of 1 percent or 1,000 of total approved applications selected from nonfood stamp households with income near the eligibility levels, plus the lesser of .5 percent or 500 of approved applications which substituted a food stamp household or an AFDC case number for income information. Verification of food stamp households consists of confirming current receipt of food stamp benefits.

All verification activity must be completed by December 15 of each school year. The auditor's review of eligibility applications should include a review of the verification file to ensure that this process was established. It is not necessary for the auditor to review the contents of the verification file.

3. Expenditures of school food service revenues should be limited to allowable school food service direct and indirect costs. Review vendor invoices and verify labor costs. Determine that inventory records on food and supply items are currently maintained. Review time sheets and verify labor cost. Verify that payroll records are maintained.

4. Net cash resources may not exceed three months average expenditures. In the event that net cash resources exceed three months average expenditures for the School Food Authority's nonprofit school food service, the State Agency may require the School Food Authority to reduce children's prices, improve food quality or take other actions designed to improve the nonprofit school food service. (REF 7CFR 210:15)

   Net cash resources are defined as all monies, that are available to, or have accrued to a School Food Authority's nonprofit school food service at any given time, less cash payable. Such monies may include but are not limited to cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities.

5. The auditor should comment on whether Food Distribution Program (formally U.S.D.A.) commodities were received. If the school district is utilizing a vendor to provide meals, review evidence that the market value of Food Distribution Program donated commodities was credited on monthly invoice statements.

6. Auditors should verify that financial arrangements and other provisions in the Food Service Management contract have been complied with; if not, cite exception.

7. The United States Department of Agriculture does not permit increases in reimbursement for revised vouchers received after the 60 days without proper verification. However, payment can be considered if the underclaim is verified in an audit or administrative review. Auditors are instructed to verify any underpayments as a result of late revisions in the audit report under the Schedule of Findings and Questioned Costs. Please note that such payment is subject to approval.

8. The following memorandums and attachments are on file at local school district offices to be referenced by the auditor:

   a) August 2002 - Reimbursement Rates for Child Nutrition Programs/Maximum Meal and Milk Prices

   b) September, 2002 - Verification Workshop Schedule and Sample Forms

c) September 20, 2002 – Reimbursement Voucher Package 2002-2003: Changes, Instructions, Rates and Timely Submission of Reimbursement Vouchers.

d) January 31, 2002 - Securing Base Year Food Service Management Company (FSMC) Contracts for School Year 2002-03

Attachments
Response and Projected Operating Statement (Form #23)
Bid/Proposal Comparison Sheet (Form #24)
Appendix B-FSMC Contract Required Language Checklist (Form #17)
Base Year Contract Checklist (Form #15)
Suggested Timeframes for the FSMC Quotation/Bid Process (Form #36)
Food Service Data (Handout #147)
Suggested Guidance for Soliciting Proposals (Handout #148)
Cost Responsibility Summary (Form #149)
Reference Materials Relating to FSMC (Handout #34)
State Agency Approval of FSMC Contracts and Addenda (Handout # 137)

e) March 1, 2002 – SFA's Renewing FSMC Contracts for 2003

1 - Early Approval of Food Service Management Company (FSMC) Addendum and Registered Food Service Management Company Directory
2 - Registered FSMC Directory
Attachment- School Food Authority/Food Service Management Company Renewal Addendum Checklist (Form 16)

March 15, 2002 – All SFAs with Self-Operated Food Service Programs Considering Employing a FSMC for School Year 2002-03

March 1, 2002 – SFAs Awarding Base Year FSMC Contracts for FY 2003

1 - Registered Food Service Management Company (FSMC) Directory
2 - Early Approval of Food Service Management Company (FSMC) Contracts
Attachment - School Food Authority/Food service Management Company Base Year Contract Checklist (Form 15)

f) April 30, 2002 – Application Process for Provisions 1 and 2

g) April 2002 - Direct Certification for Free Meal/Free Milk Benefits for School Year 2002-2003

h) Multi-Child Family/Household Application for Free and Reduced Price Meals FY 2003 Expanded Statewide Pilot Project

i) Fiscal Year 2003 Application for Free and Reduced Price Meals or Free Milk

j) Fiscal Year 2003 Income Eligibility Guidelines

k) Maximum Prices for Student Meals/Snack and Variable Pricing for School Year 2002-2003

l) May 30, 2002 - Program Extensions for the Summer 2002 Program Changes to be Effective Beginning 9/1/2002

INSERT NATIONAL SCHOOL LUNCH RATES SCHEDULE FROM NJ DEPT OF AGRICULTURE

**Workman's Compensation – Internal Service Fund**

For the years prior to the implementation of GAAP, the audit program reflected the activity related to self-insurance for workmen's compensation and unemployment compensation in the trust and agency funds. The sample CAFR issued by the department does not include examples of the treatment of these forms of self-insurance under GAAP. In August 1994, a hotline was issued directing districts and public school accountants toward two Statements of the Governmental Accounting Standards Board (GASB 10 and 17) for guidance regarding the proper accounting treatment for their district. Under the GASBs, expendable trusts could no longer be used to account for self-insured workmen's compensation funds where there is no transfer of risk, but instead must be accounted for in either the general fund or an internal service fund.

## *SECTION II – SPECIFIC COMPLIANCE*
## *FUND 60 –TRUST AND AGENCY FUNDS*

Trust and agency funds are used to account for resources held and administered by a school district when it acts in a fiduciary capacity. Trust funds are used to account for assets held by the district in a trustee capacity. Agency funds are utilized to account for assets held by the district as an agent for individuals or other funds.

Fiduciary funds report assets that are held in a trustee or agency capacity for external parties and that cannot be used to support the government's own programs. Agency funds report resources held by the reporting government in a purely custodial capacity. Trust funds may be distinguished from agency funds by the existence of a trust agreement, a higher degree of management involvement, and a longer holding period of the fund resources.

**Pre-GASB No. 34 Trust Funds (two types):**

1) Nonexpendable Trust Funds – the principal must be held intact but revenues generated can be expended (i.e. some scholarships and endowments).

> *Auditor's Note* – Activity in the nonexpendable trust funds are required to be included in the General-Purpose Financial Statements. Refer to Exhibits A-4 and A-5 of the pre-GASB 34 financial statements.

2) Expendable Trust Funds – both the principal and revenues generated are expendable (i.e. unemployment trust fund).

***Unemployment Trust Fund***

Effective January 1, 1999, a portion of the employees deductions for unemployment compensation are required to be deposited in the Unemployment Compensation Insurance Trust Fund. This applies to districts that fund New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". The percentage breakdown is as follows:

| | **January 1, 2000 through June 30, 2003** |
|---|---|
| Worker Unemployment | 0.100% Submit with Quarterly Contributions Report |
| | 0.100% ***Deposit into individual trust account*** |
| Worker Health Care | 0.200% Submit with Quarterly Contributions Report |
| Worker Workforce | 0.025% Submit with Quarterly Contributions Report |
| | 0.425% |

| | **As of July 1, 2003** |
|---|---|
| Worker Unemployment | 0.100% Submit with Quarterly Contributions Report |
| | 0.300% ***Deposit into individual trust account*** |
| Worker Workforce | 0.025% Submit with Quarterly Contributions Report |
| | 0.425% |

Districts that fund New Jersey Unemployment Compensation Insurance under the "Contributory Method" will continue to remit the entire deduction to the Commissioner of Labor. If you have questions that pertain to withholding and/or filing, it is recommended that you contact the New Jersey Department of Labor at (609) 633-6400.

**GASB No. 34 Model - Trust Funds**

Districts implementing GASB No. 34 do not include trust or agency fund (fiduciary) activity in the district-wide financial statements. The funds are reported in the fund statements as described further below. When the district is responsible for administering these resources, which are not available for use by the district, the district is acting in a fiduciary or agency capacity. Inclusion of the trust or agency fund resources in the district wide financial statements might mislead the reader about the financial position of the district.

GASB No. 34 eliminated the terminology of expendable and nonexpendable trust funds and identifies three classes of trust funds:

- Pension and other employee benefit trust
- Investment trust funds
- Private-purpose trust funds

Pension and other employee benefit trust funds account for resources held in trust for the members and beneficiaries of the district's employee benefit plans. Investment trust funds report the resources of a combined investment effort among school districts. Private-purpose trust funds encompass other trust fund arrangements for which principal and income benefit individuals or agencies outside of the school district. Examples of a private purpose trust fund are a scholarship fund or a fund that reports the resources of an awards program, funded by contributions from local businesses to provide small cash awards to qualifying high school seniors.

Districts need to evaluate those activities that have been reported as trusts in the pre-GASB 34 Model to determine if they are trusts for purposes of financial reporting under GASB 34. In some instances, districts will need to include the former expendable trusts in the special revenue fund, i.e., if the resources actually benefit the district and are expendable. When funds are legally restricted to the extent that only the earnings, and not the principal, may be used to benefit the district, those resources are reported in the permanent fund.

There are two required trust fund financial statements under GASB No. 34:

- *Statement of Fiduciary Net Assets*
- *Statement of Changes in Fiduciary Net Assets*

Refer to the *Statement of Fiduciary Net Assets* and the *Statement of Changes in Fiduciary Net Assets* (Exhibits B-7 and B-8), the sample fiduciary fund statements, in the Sample Statements section on the NJDOE web site: http://www.state.nj.us/njded/finance/fp/gasb34/ .

*Unemployment Compensation Trust Funds*

When a district elects the reimbursement method (also called the payment in lieu of contributions or pay as you go method, i.e., the state pays the claim and invoices the district for the amount due) for unemployment compensation, the accumulation of funds will continue to be reported in a trust/fiduciary fund in the CAFR using the GASB 34 Model.

**Pre GASB No. 34 Agency Funds:**

Agency funds are utilized when the school district is the acting agent for other governments, organizations and/or individuals. The fund resources are available for purposes designated in the underlying legal relationships. The financial statement presentation requires a statement of changes in assets and liabilities (i.e. payroll and payroll agency).

Refer to Section II-10.2 for discussion on regulations related to third party disbursements (payroll service organizations). The regulations (*N.J.A.C.* 5:30-17 et seq.) are available at: www.nj.gov/dca/lgs/rules/rulesmenu.shtml.

**Agency Funds Under GASB No. 34:**

Agency funds report resources held and administered by the reporting district in a purely custodial capacity. These funds typically involve only the receipt, temporary investment, and remittance of the resources to external parties. A common example is an arrangement between a student organization and the district by which the district maintains the cash raised by the student organization. Agency funds are included in a separate column in the *Statement of Fiduciary Net Assets.* Since agency funds have no net assets they are not included in the *Statement of Changes in Fiduciary Net Assets*.

As noted under Trust Funds, sample statements for the fiduciary funds are in the Sample Statements section on the NJDOE web site: http://www.state.nj.us/njded/finance/fp/gasb34/ .

***SECTION II – SPECIFIC COMPLIANCE***
***FUND 70 –STUDENT ACTIVITY FUNDS***

**Organizations under the Auspices of the School**

An organization that is officially recognized by the school as part of the activity program of the school and the board of education is at least indirectly responsible for supervision and control. The board should formally approve each fund in its school district. If any fund is an activity carried on by the board, an officer or employee of the board, or an organization of public school pupils conducted under the auspices of the board, the board must assure that financial and bookkeeping controls are established.

The State Board of Education has not prescribed a uniform system of bookkeeping for the activities funds of school districts. *N.J.A.C.* 6A:23-2.14 states "Each district board of education and charter school board of trustees shall ensure through adoption of a formal board policy that all financial and bookkeeping controls are adequate to ensure appropriate fiscal accountability and sound business practices." This policy shall include but not be limited to, the following minimum requirements:

(1) Receipts shall be detailed showing date, sources, purpose and amount. All receipts should be promptly deposited in the bank. Bank deposits must agree with the receipts in the cash receipt book and must be traceable to definite receipts or groups of receipts.

(2) Disbursements shall be recorded chronologically showing date, vendor, check number, purpose and amount. All disbursements should be made by check and supported by a claim, bill or written order to persons supervising the fund. Checks should bear two or more authorized signatures.

(3) Book balances shall be reconciled with bank balances. Canceled checks and bank statements must be retained for examination by the auditor as part of the annual audit.

(4) Student activity funds shall be classified by school.

(5) Borrowing from the student activity is prohibited.

Local school district auditors should refer to Chapter 15 of the GAAP Technical Systems Manual.

**GASB 34 Model**
Fiduciary funds report resources that are held for others and that cannot be used to support a district's own programs. Student activity funds are fiduciary funds reported as agency funds within the CAFR. *N.J.A.C.* 6A:23-2.14 states student activity funds are used to account for funds derived from athletic events or other activities of pupil organizations and to account for the accumulation of money to pay for student group activities.

In the basic financial statements, an agency fund is reported in a separate column in the *Statement of Fiduciary Net Assets*. Because an agency fund does not have net assets, it is not included in the *Statement of Changes in Fiduciary Net Assets*. The district will continue to present the *Student Activity Agency Fund Schedule of Receipts and Disbursements* in Other Supplementary Information.

**Fund Raising in Schools by Outside Organizations**

Organizations such as the United Fund, March of Dimes, etc., may request that moneys be collected. These funds are not subject to audit. Boards of education may give permission for the collection to be made in schools. Any teacher or pupil who serves as a collector does so as a private citizen and not as an employee of the board. Accurate records must be kept but responsibility is to the organization and not to the board of education for the money collected.

In order to avoid misunderstanding, we advise that boards of education that give permission for soliciting in a school building by outside organizations, make it clear that the board is not directing the teachers and pupils to collect funds but merely granting permission to do so. The board is further advised to disclaim any responsibility for the protection of and the accounting for the funds to the outside organizations.

Any collector should understand that he/she is collecting voluntarily as a citizen and not as a teacher or pupil and that the board of education has no responsibility for the protection of moneys so collected.

Some boards may have given permission for depositing funds collected in drives in a school activity account and the issuance of checks thereon to the outside organization. Although this might be a convenience to school personnel who are handling the money collected, it causes an undesirable commingling of funds for which the board should have no responsibility. The commingling of such funds is legally suspect. However, if it occurs these are subject to audit by the boards' auditors.

**Funds of Teacher Organizations and Parent/Teacher Organizations**

The law provides that the books, accounts and moneys of any officer or employee of the board shall be audited. This does not mean that every time a school employee serves as treasurer of an organization that the account must be audited. It is only when money is held for which the board is directly or indirectly responsible that the accounts must be audited. The board has no responsibility for the funds of teacher organizations. A school employee who serves as a treasurer of such an organization does so as a citizen and not as an employee of the board. If moneys were deposited in a central school fund, they would be subject to audit.

**Funds Collected by Teachers from Pupils for Immediate Purchase of Items**

Teachers may receive money from children to buy magazines, tickets, etc., in bulk to save the children money. It is our opinion that in so doing the teacher represents the children and not the school board and assumes full responsibility for the transactions.

## *SECTION II – SPECIFIC COMPLIANCE*
## *FUND 80 –GENERAL FIXED ASSETS ACCOUNT GROUP*

When a fixed asset (capital asset) expenditure is recorded in the general fund, special revenue fund or capital projects fund, or when fixed assets are donated to the district, an entry is required in the general fixed assets account group. Under GAAP, the general fixed assets account group must be established in the general ledger and updated at least monthly for additions and disposals. The department notified districts by memorandum dated January 11, 2001 that, effective July 1, 2001, the capitalization threshold used by school districts and charter schools in the State of New Jersey is increased to $2,000. Revised pages 72 and 73 of The Uniform Minimum Chart of Accounts (Handbook 2R2) for New Jersey Public Schools were attached to the January, 2001 memorandum. Items greater than $2,000 which meet the other four criteria identified in the Handbook 2R2 should be considered capital assets. Local school district auditors must use the GAAP For New Jersey School Districts, A Technical Systems Manual, Chapter 12 to evaluate a district's maintenance of the general fixed asset records. The Department of Education has determined that the general fixed asset (capital asset) records should have been implemented on or before June 30, 1994. The auditor must make appropriate comments and recommendations if the fixed asset accounting is not being maintained as well as issuing a qualified opinion on the general-purpose financial statements.

### Capital Leases

Assets acquired under a capital lease are recorded at the inception of the lease.

### Construction in Progress

Assets under construction are tracked through Construction in Progress until completion.

**GASB 34 Model - Sample Format for the Capital Asset Subsidiary Ledger**

As noted in Chapter I-1 of this Audit Program, schedules of capital (fixed) assets should be prepared prior to audit. The following is a suggested minimum format for districts' use in maintaining records of capital assets, including accumulated depreciation (Accum. Depr.) and depreciation (Depr.):

| Classification | N1 | N2 | Date Placed in Service | Acquisition Cost | Method of Depr. | Life N3 | 6/30/02 Accum Depr. | 7/1/03-6/30/04 Depr. Expense | 6/30/03 Accum. Depr. |
|---|---|---|---|---|---|---|---|---|---|
| **Buildings:** | | | | | | | | | |
| **School #1** | | | **9/1/97** | **$5,000,000** | **S/L** | **35 yr** | **$547,619** | **$142,857** | **$690,476** |
| **Furniture:** | | | | | | | | | |
| **Desks** | **B2** | **P5** | **9/1/97** | **$5,000** | **S/L** | **10 Y** | **$1,917** | **$500** | **$ 2,417** |

**N1** – Assets should be tagged and maintained by physical location.
**N2** – Assets that can be specifically identified to a program or function should be noted with the program code. If assets are not specifically identifiable, the district should note "N/A" in the program column.
**N3** - Districts may refer to the table of estimated useful lives (International ASBO) included in Section I-1 of this Audit Program.

General capital assets are reported, net of accumulated depreciation, in the assets section of the district-wide *Statement of Net Assets*. GASB 34 eliminated the reporting of the general fixed asset account group.

Districts that are implementing the GASB 34 financial statement model will continue to use the general fixed asset account group (GFAAG) for recording transactions throughout the year until the National Center of Education Statistics (NCES) and subsequently the NJDOE issue an updated chart of accounts. Journal entries will be recorded as part of the year-end conversion process transferring the balances in the GFAAG to the district wide *Statement of Net Assets and to record the depreciation in the Statement of Activities.*

General capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds statements (*Balance Sheet* and *Statement of Revenues, Expenditures, and Changes in Fund Balances*). Capital outlays are reported as a reconciling item in the *Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities,* which reconciles the net change in government fund balances to the change in net assets of governmental activities.

District staff and auditors may refer to the NJDOE GASB 34 web site for sample statements noted above http://www.state.nj.us/njded/finance/fp/gasb34/outline.shtml#worksheets. District staff and auditors should also refer to the Section II-30, Capital Projects Fund, of this Audit Program for related subjects.

***SECTION II – SPECIFIC COMPLIANCE***
***FUND 90 –GENERAL LONG-TERM DEBT ACCOUNT GROUP***

**Pre-GASB Statement No. 34**
The General Long-Term Debt Account Group (GLTDAG) represents a listing of the long-term liabilities of an entity and any monies that have been accumulated for their repayment. These would include:

- Serial Bonds Payable (Type II district debt only)
- Capital Leases
- Compensated Absences
- Early Retirement Incentive Programs
- Rebatable Arbitrage (if applicable)
- Judgments

Local school district auditors should refer to Chapter 13 of the GAAP Technical Systems Manual.

**GASB 34 Model – Long-term debt**

Districts that are implementing the GASB 34 financial statement model may continue to use the general long-term debt account group (GLTDAG) for recording transactions throughout the year. Journal entries will be recorded as part of the year-end conversion process transferring the balances in the GLTDAG to the district wide *Statement of Net Assets.* When the National Center of Education Statistics (NCES) and NJDOE issue an updated chart of accounts, this methodology may be revised.

*Statement of Net Assets*
General long-term liabilities include bonds, notes, and other long-term liabilities that are not directly related to and expected to be paid from proprietary funds and trust funds. Liabilities of the proprietary fund are reported in the proprietary fund *Statement of Net Assets*; liabilities of the trust fund are reported in the *Statement of Fiduciary Net Assets*. General long-term liabilities of the district should be reported in the governmental activities column of the district-wide *Statement of Net Assets*. Long-term liabilities include, but are not limited to the non-current portion of capital and certain operating leases, compensated absences, claims and judgments, pensions, and special termination benefits liabilities. Similar to the presentation of assets, general long-term liabilities are reported in the order of liquidity. "Liabilities with average maturities greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year" (GASB 34, par. 31).

Interfund liabilities, even if non-current, are not general long-term liabilities. District staff and auditors should refer to the revised GASB Codification 1500.

*Governmental Funds Statements*
Governmental funds reporting focuses on current financial resources, hence the fund financial statements do not include long-term liabilities such as bonds payable. The fund statements are intended to present a more detailed short-term view of basic education services with the most readily available assets and current liabilities. The governmental funds balance sheet includes a reconciliation of total governmental funds balance to the net assets of governmental activities. Long-term liabilities are a common reconciling item. The purpose of the reconciliation is to assist the reader to understand how the short-term financial information in the governmental funds statements differs from the more comprehensive financial information in the district-wide statements.

**GASB 34 Model – Long-term debt (continued)**

Disclosures
Auditors and those districts reporting under GASB 34 should refer to GASB 34, GASB 38, and the GASB Implementation Guides for guidance on disclosures including provisions for year-end accrual of interest, amortization of premium or discount over the life of the bonds and inclusion for discussion within the Management Discussion and Analysis.

**Compensated Absences**

Statement No. 16 of the Governmental Accounting Standards Board (GASB), "Accounting for Compensated Absences", changed the method for calculation of a district's liability for compensated absences (e.g., vacation, sick leave). This Statement supersedes the instructions shown on pages 13.4 and 13.5 of the GAAP Technical Systems manual regarding calculation of this liability for inclusion in the general long-term debt account group. By memo of May 15, 1995, this department advised School Administrators and Public School Accountants of the change. Auditors should refer to GASB 16 and the Codification of Governmental Accounting and Financial Reporting Standards, Section C60, for further explanation and illustrations of calculations of vacation leave and sick leave.

**GASB 34 Model** -The inclusion of the long term portion of compensated absences in the district-wide Statement of Net Assets may generate a deficit in unrestricted net assets. This occurs because the pre-GASB 34 fund balance is based on current resources, whereas the GASB 34 net assets is based on economic resources and includes both long term assets and long term liabilities. When the long-term portion of compensated absences exceeds all other unrestricted net assets, a deficit will occur.

**Early Retirement Incentive Program**

Legislation enacted in 1991 and 1993 provided early retirement incentives (ERIP) for certain members of TPAF and PERS who met certain age and service requirements and who applied for retirement between certain dates in that fiscal year. The ERIP was subject to Board approval. School districts are assessed annually for their actuarially determined contribution to fund this program. Each participating district was given several options as to the length of time it desired to fund this liability. Under GAAP, the district liability is considered a contractual obligation. The liability is calculated for each participating district and billed to the district separately from its normal pension obligation, if any. The unpaid principal portion of the liability is to be included as a district liability in the general long-term debt account group for districts that have not implemented GASB Statement No. 34. Any advance payments made against that contractual obligation are considered GAAP expenditures (not prepaid) in the year of payment. The department recommends proper footnote disclosure and a supplemental exhibit in the general long-term debt account group identifying the annual maturities.

P.L. 2002, c.42, effective July 12, 2002, revised *N.J.S.A.*18A:24-61.2 to permit NJ school districts to issue refunding bonds to fund their remaining ERIP liabilities. Auditors should refer to the Question and Answer Guidance on the web site http://www.nj.gov/njded/finance/fp/af/faq_retire.shtml. At the time the payment is made to retire the unfunded liability, the old balance is removed from the GLTDAG and the new balance recorded. The transaction is reported at year end as "Other Financing Sources – Long-Term Debt Issued" and "Other Financing Uses – Repayment of ERIP Liability".

If there is not a requirement in the bond agreement to use the debt service fund, the transaction is is recorded in the general fund and the general long-term debt account group (GLTDAG). Districts and auditors should refer to GASB Codification sections 1500 and D20 for further guidance on year-end reporting and disclosures.

**GASB 34 Model** - Districts that have implemented GASB 34 will report remaining debt in the district-wide Statement of Net Assets. See the discussion above for GASB 34 reporting of long term debt.

**Rebatable Arbitrage**

The glossary of The Government Finance Officers Association's publication Governmental Accounting, Auditing, and Financial Reporting (the "blue book") describes rebatable arbitrage as "A term used in connection with the reinvestment of the proceeds of tax-exempt debt. A requirement to remit to the federal government interest revenue in excess of interest costs when the proceeds from the sale of tax-exempt securities are reinvested in a taxable money market instrument with a materially higher yield."

The 1994 edition of the "blue book" (page 93) describes two ways of accounting for rebatable arbitrage. The first approach is to treat excess earnings as a reduction of interest revenue (if this approach is taken, the liability for rebatable arbitrage is reported in the capital projects fund, rather than in the GLTDAG, even if the liability is not expected to be paid until several years into the future). The second approach is to treat rebatable arbitrage like a claim or judgement. Using this approach, all interest income, regardless of whether it is rebatable, would be reported as revenue of the capital projects fund. The liability for rebatable arbitrage would then be reported in the GLTDAG until due.

**GASBS 34 Model** - Districts which are implementing GASB 34 should refer to page 66 of the 2001 "blue book" for treatment of rebatable arbitrage, which states "Rebatable arbitrage should *not* be treated as a reduction of investment revenues in governmental funds: it should instead be treated in the same way as any other claim or judgment." Therefore, only one approach is permissible under GASB 34. The liability would be recorded in the *Statement of Net Assets*.